Celebrating Alberta's Centennial

{1905 - 2005}

MELCOR DEVELOPMENTS LTD.

ANNUAL REPORT 2004

"CELEBRATING ALBERTA'S CENTENNIAL 1905 - 2005"

As the Province of Alberta celebrates its centennial in 2005, Melcor will celebrate its 82nd year of serving the community. As "Alberta's Premier Developer", Melcor is proud to have been part of Alberta's heritage and looks forward to being an ongoing contributor to the Province's bright future.

We at Melcor wish to congratulate the Province of Alberta on its 100th anniversary and its record of achievement.

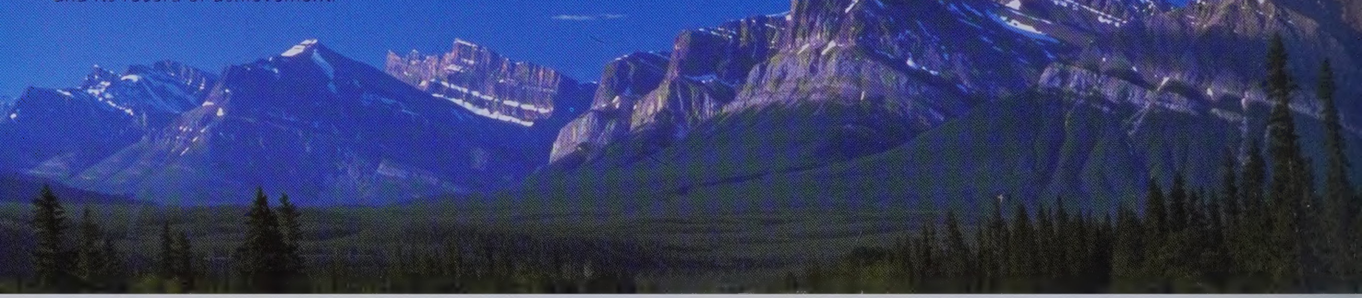


TABLE OF CONTENTS

Melcor Developments Ltd. ("The Company", "Melcor") is primarily engaged in the following activities:

- the acquisition, planning and development of urban communities and the subsequent marketing and sale of single family, multiple family and commercial / industrial lots in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge, Red Deer and in the State of Arizona;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in Western Canada; and
- the ownership and management of two championship golf courses in the Edmonton area.

Notice of Annual Meeting

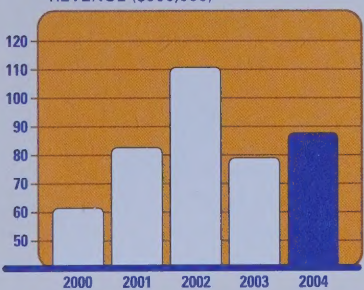
The annual meeting of Shareholders will be held at The Fairmont Hotel Macdonald, Wedgwood Room, 10065-100 Street, Edmonton, Alberta, Canada on the 12th day of April, 2005, at 11:00 am MDT.

Cover photo courtesy of Alberta Economic Development / Travel Alberta

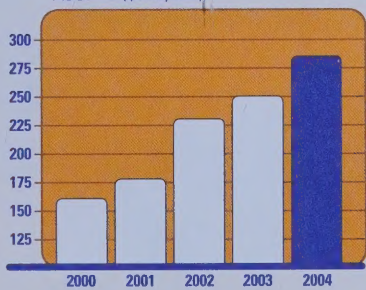
FINANCIAL HIGHLIGHTS

($)	2004	2003
Revenue	88,339,000	80,035,000
Earnings	19,437,000	18,406,000
Assets	282,348,000	251,702,000
Shareholders' equity	153,541,000	140,737,000
Per common share		
Basic earnings	6.30	6.00
Diluted earnings	6.15	5.86
Book value per share	50.27	45.65
Dividends paid	1.20	1.10

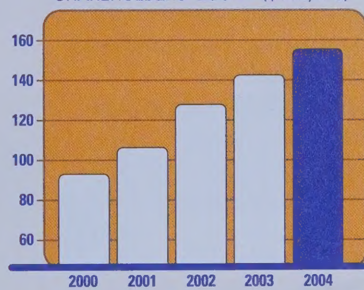
REVENUE ($000,000)



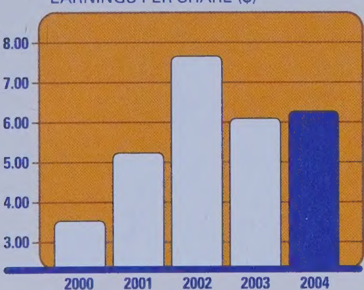
ASSETS ($000,000)



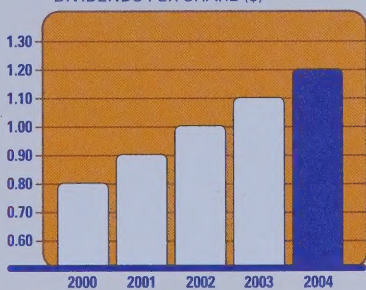
SHAREHOLDERS' EQUITY ($000,000)



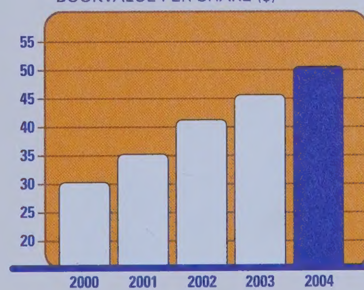
EARNINGS PER SHARE ($)



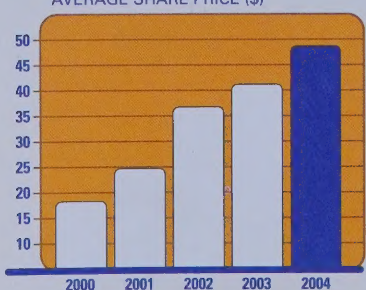
DIVIDENDS PER SHARE ($)



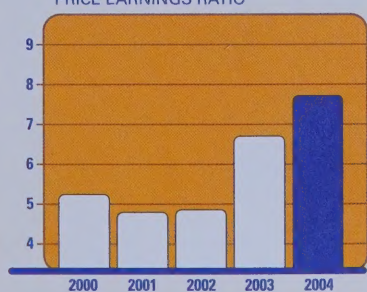
BOOKVALUE PER SHARE ($)



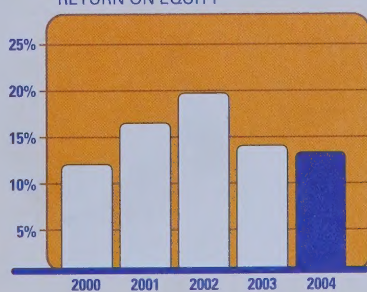
AVERAGE SHARE PRICE ($)



PRICE EARNINGS RATIO



RETURN ON EQUITY



MELCOR IN THE COMMUNITY

Melcor Developments Ltd. is a proud part of Alberta's vibrant economy. We believe that it is important to contribute to the communities where we work and live. The following are some of the organizations we have supported throughout Alberta.

Community/Professional

Alberta Ecotrust Foundation
Alberta Recreation & Parks Association
Alberta Sport, Recreation & Parks
Advocis Edmonton
Beth Shalom Synagogue
Capital Care Foundation
Catholic Social Services
Compassion House
Christmas Bureau of Edmonton
Chrysalis Charitable Foundation
CrimeStoppers
Edmonton Downtown Business Association
Edmonton Downtown Development Corporation
Edmonton Community Foundation
Edmonton Meals on Wheels
Edmonton Oilers Community Foundation
Edmonton Public Library
Fort Edmonton Historical Foundation
Good Samaritan Society
Goodwill Industries
Jewish National Foundation
Legacy Magazine
M.A.D.D. Canada
Mancap Foundation
Minerva Foundation
Odyssium
Recreation for Life Foundation
Rotary Club of Edmonton
Royal Canadian Legion
Salvation Army
Sharing our Military Heritage Foundation
Skate Canada
Spruce Grove Chamber of Commerce
Spruce Grove Tri-Leasure Facility
United Way
Urban Development Institute
Valley Zoo Development Society
World Cup Triathlon
YMCA

Cultural

Alberta Ballet
Brian Webb Dance Company
Calgary Opera
Citadel Theatre
Edmonton Art Gallery
Edmonton Chinese Garden Society
Edmonton International Film Festival
Edmonton Opera
Edmonton Symphony
Northern Lights Theatre
ProCoro Canada
Theatre Network
Winspear Centre
The Works Society
Victoria School Foundation for the Arts

Education

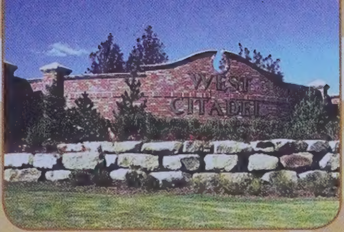
Asokan Project
Clear Water Academy
Grant MacEwan College Foundation
NAIT
Parkland School Division
Red Deer College
St. Michael's Catholic School
University of Alberta
University of Calgary

Youth

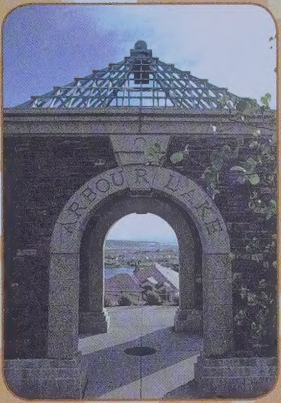
ABC Head Start
Bell Walk For Kids
Big Brothers & Big Sisters
Boys & Girls Clubs of Edmonton
Children's Cottage Society of Calgary
Gordon Russell's Crystal Kids Youth Centre
Junior Achievement of Northern Alberta
Kids Help Phone
Kids Kottage Foundation
Scarecrow Festival
Scouts Canada
Youth Emergency Shelter Society

Healthcare

Aaron Moser Spinal Cord Injury Foundation
Alberta Cancer Foundation
Alberta Foundation for Diabetes Research
Alzheimer Society of Edmonton
Arthritis Society
Black Gold Health Foundation
CNIB
Calgary Health Trust
Canadian Breast Cancer Foundation
Canadian Cancer Society
Canadian Diabetes Association
Canadian Liver Foundation
Canadian Orthopaedic Foundation
Canadian Paraplegic Association
Caritas Hospitals Foundation
Compassion House
Cross Cancer Institute
Dystonia Medical Research Foundaiton
Glenrose Rehabilitaion Hospital Foundation
Handicapped Housing Society of Alberta
Health Smart Solutions
Juvenile Diabetes Research
Kids Cancer Care Foundation
NeuroScience Canada
Northern Alberta Brain Injury Society
Pilgrims Hospice Society
Royal Alexandra Hospital Foundation
Society For Treatment of Autism
St. John's Ambulance
St. Michael's Extended Care
Stollery Children's Foundation
University Hospital Foundation

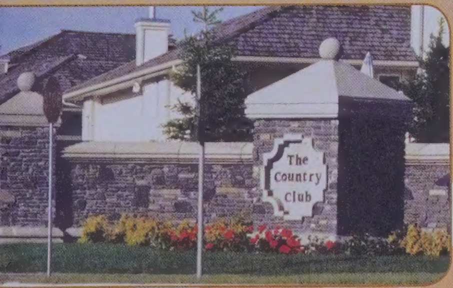


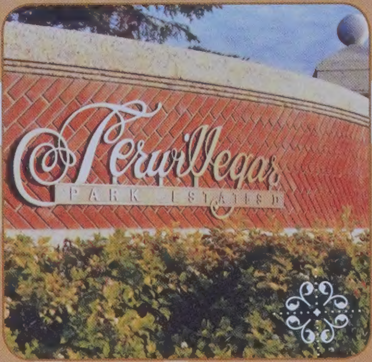
CALGARY



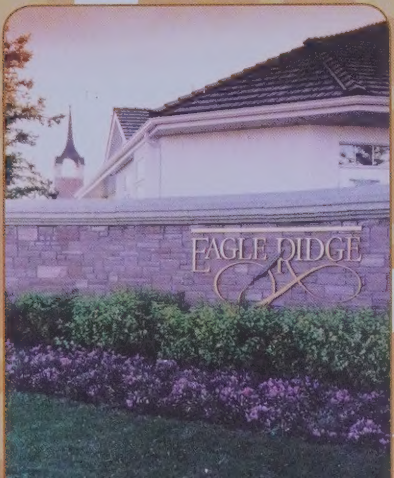
RED DEER

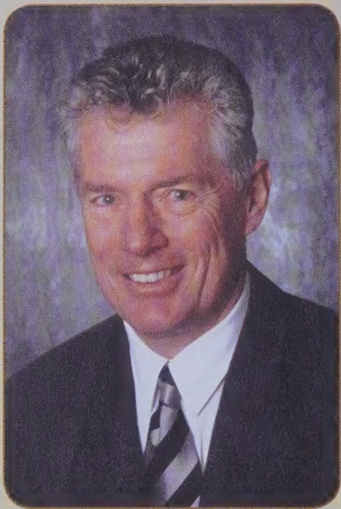
LETHBRIDGE





EDMONTON





Timothy C. Melton

MESSAGE FROM THE
EXECUTIVE CHAIRMAN

On behalf of the Board of Directors, I am pleased to report that 2004 was a successful year for the Company. Net earnings for the year were $6.30 per share compared to $6.00 per share in 2003. Other significant achievements realized throughout the past year include:

Business Plan Goals

One of the prime responsibilities of our Board of Directors is to ensure the Company has in place a business plan and a budget. The process involves working with management to discuss the business environment, plan assumptions, risk management, and to review and approve the business goals and detailed financial budgets. I can report that management was successful in exceeding its financial objectives for 2004. Management recommended several opportunities that were approved for purchase by the Board of Directors, thus realizing the objective to acquire lands for future development.

Corporate Governance Compliance

The Company is fortunate that outside, independent Board members are prepared to serve on the various committees that are required. Both the Audit Committee and the Corporate Governance and Compensation Committee have met all legal requirements of the Alberta and Ontario Security Commissions and of the TSX. Further, the Company will continue to implement Bill 198 requirements including the initiation in 2005 of the major task of performing a comprehensive assessment of the accuracy and reliability of financial and general entity controls across the organization and, where required, identify remediation plans. Our Board committees are addressing these increasingly onerous requirements in an efficient and effective manner. As a Board we must guard against becoming preoccupied with the regulatory mandated governance issues of the day, at the expense of building value and meeting customer and shareholder needs.

Increased Dividends

Shareholders have benefited from the Company's success through increased dividends over the past several years. Dividends totaling $1.20 per share were paid in 2004 compared to $1.10 in 2003. It has been an objective of the Company to ensure that Shareholders get a reasonable return on their investment commensurate with financial results and cash reserves.

Balancing Company Goals and Community Needs

Melcor is a member of IMAGINE and has "A Caring Company" designation. IMAGINE is an initiative established by Canada's leading corporations to promote greater corporate and personal philanthropy. Member firms agree to donate a minimum of 1% of annual pre-tax profit to the Canadian charitable sector and encourage employee volunteerism. The Board is proud of both the financial commitment the Company has made to many charitable organizations and the volunteer efforts of our employees in enhancing our community.

The Directors recognize with gratitude and appreciation the continuing outstanding contributions of its employees to the Company's success and growth. I also thank Melcor's Board of Directors for their guidance, our customers and suppliers for their business and support, as well as our Shareholders for their confidence and loyalty.

Sincerely,

Timothy C. Melton
Executive Chairman

A family Tradition

(Since 1923)

THE MELTON FAMILY

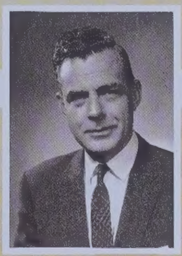
Louis Timothy Melton

Laying the Foundation

It began with a man scanning Edmonton's west horizon, exploring opportunities and helping young families purchase homes of their own, a dream he held dear.

The Building Years

The post war era and the discovery of oil created opportunities in Alberta. Under Stan Melton's leadership and with his dedicated team, the Company diversified and expanded to become Western Canada's leading Realtor.



Stan Melton

Tim Melton

Developing A Future

Melcor continues to build on it's 82 year record of success. The company is committed to providing essential real estate, service and products for future generations.

The Next Generation

82 years later, a 4th generation of the Melton family, and their outstanding management team scans current horizons and opportunities, ensuring Melcor remains at the forefront of real estate and land development.

Ralph B. Young

MESSAGE FROM THE

PRESIDENT & CHIEF EXECUTIVE OFFICER

The Alberta economy and Alberta real estate markets have continued at high levels, outperforming most provinces. All major communities in Alberta maintained strong demand and experienced price growth in residential markets. Office and commercial demand were mixed, especially perennial weaknesses in the Edmonton office leasing market.

This past year marked Melcor's 81st anniversary and its 36th year as a public company. The Company has continued to prosper and has produced strong operating and financial performance for the year ending December 31st, 2004. Results exceeded the Company's Business Plan objectives in most areas, the exception being the performance of the golf courses due to poor weather conditions.

The Company has continued to enjoy strong relationships with key stakeholder groups including its major lender, joint venture participants, home builders, tenants, customers and business associates. We have formed one new joint venture in 2004 and we expect to finalize two more joint ventures in 2005.

Melcor has a vibrant employee and management group with a strong mix of long service employees, mid-term employees ready for succession and newer employees starting their careers. In 2005, we will add 2 employees to Melcor's Quarter Century Club (25 years of employment with Melcor) which will make a total of 7 current active employees.

The Community Development Division had a very strong year marketing new and exciting residential communities. In addition, significant advances were achieved to development approvals in all regions to allow future development of Melcor's land inventory.

Land acquisitions have resulted in the purchase of 919 acres of new land inventory in Edmonton, Calgary, Red Deer and Lethbridge at a purchase price of $22,750,000. Management is actively seeking annexations in several Alberta communities including Calgary, Red Deer and Spruce Grove. Melcor had some success in Red Deer in 2004 with 64 acres of our land being annexed.

The Property Development Division continued development activities at our Leduc Common retail center where $4,000,000 in assets were completed and transferred to the Investment Property Division. We expect to have 85% of the current phase of Leduc Common completed during 2005. The division also assisted with two land sales which will help initiate development projects in Spruce Grove and Chestermere. Planning has continued on a second Calgary office building at Crowfoot Centre and a new retail centre in south Edmonton at the Magrath community.

The Investment Property Division has added $5,900,000 in new assets to the company with additions of Leduc Common, Kingsway Business Centre and commencement of an expansion of the Westgate Business Centre. The financial performance of the Division improved significantly over 2003 and further improvements are anticipated in 2005.

Fiscal 2004 has been an excellent year for Melcor and we look forward to celebrating Alberta's centennial with another year of achievements for Melcor, Alberta's Premier Community Developer.

I would refer you to Management's Disscussion and Analysis beginning on page 8 for more detailed explanations of Company activities.

Sincerely,

Ralph Young

Ralph B. Young
President and Chief Executive Officer

Michael D. Shabada

MESSAGE FROM THE

VICE-PRESIDENT, FINANCE & CHIEF FINANCIAL OFFICER

Fiscal 2004 was Melcor's second best year for earnings per share and set several records for share performance and company growth. Share price set a historic high of $55.00 per share in 2004 and an unofficial high of $61.75 was achieved as of mid February 2005. The dividend of $1.20 per share was also a record as dividends have continued steady growth for 10 years in a row. For the first time in many years, the average trading price of the shares exceeded their average book value for the year. Since the year end, the trading of the common shares has exceeded the book value by a widening margin.

The graph below illustrates Melcor's five-year cumulative total shareholder return, assuming an initial investment of $100 with all dividends reinvested, versus the return on the TSX 300 Composite Index and the TSX Real Estate Index. Over the past 5 years, the investment in Melcor would have grown to $318 compared to the TSX 300 Composite Index growth to $119 and the TSX Real Estate Index growth to $193.

Assets and shareholder equity have also grown to record levels, however, both return on equity and return on assets (see performance measures at the back of the annual report) have declined to levels below their five year averages.

The Company continues to have a strong relationship with its major lender and it endeavors to nurture relationships with other lenders. Our debt to equity ratio of .84 to 1 is well below the Company's acceptable upper range of 1.25 to 1. While there were no new financings of investment properties during 2004, subsequent to the year end two mortgages, which raised $4,293,000, were funded. The Company is looking to mortgage Leduc Common with fixed rate long term financing during 2005.

The annual meeting will be held on April 12, 2005 at 11:00 am at the Hotel Fairmont Macdonald in Edmonton which is the earliest date that the meeting has ever been held.

I would invite all shareholders and interested parties to review this annual report and to contact us with any comments or questions regarding the information that is published herein.

Sincerely,

Michael Shabada

Michael D. Shabada, C.A.
Vice-President, Finance and Chief Financial Officer
Corporate Secretary

MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FEBRUARY 24, 2005

The following discussion and analysis of the financial results and position of Melcor Developments Ltd. should be read in conjunction with the audited financial statements and notes to those statements for the years ending December 31, 2004 and 2003. The financial data provided has been prepared in accordance with Canadian Generally Accepted Accounting Principles. The Company's reporting currency is Canadian dollars. Certain statements in this discussion can be considered forward looking, and readers are cautioned that such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contained in these forward looking statements. These risks and uncertainties are described elsewhere in this discussion and in other regulatory filings.

Additional information including the Annual Information Form and Management Information Circular is available from SEDAR at www.sedar.com.

The balance sheet is presented without reference to current assets or current liabilities. The operating cycle of an entity involved in real estate investment and development is normally considered to be longer than one year. Thus, the concept of current assets and current liabilities is not considered relevant and there is no need to segregate the balance sheet to disclose assets or liabilities which are expected to be settled within the immediately following year.

BASIC ACTIVITIES

Melcor Developments Ltd. ("Melcor" or "the Company"), which traces its history back to 1923, has been a public Company since 1968 and trades under the symbol "MRD" on the Toronto Stock Exchange. It has survived and prospered for over 80 years, due to stable and committed ownership and loyal and dedicated staff who are focused on the real estate industry. Melcor primarily operates in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer. It also has assets in Kelowna (British Columbia), Regina (Saskatchewan) and in Arizona (USA). Its diversified operations include:

- the acquisition of raw land, which is held for future development until market conditions warrant the planning, servicing and marketing of urban communities which are then sold in the form of single-family, multiple-family and commercial / industrial lots;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in Western Canada including a manufactured home community in Calgary; and
- the ownership and management of two championship golf courses in the Edmonton area.

Mission Statement

Melcor's mission is to be Alberta's premier real estate development and management Company by successfully meeting the needs of:

- our shareholders, partners and lenders;
- our customers and suppliers;
- ourselves and fellow employees; and
- our communities.

OVERALL PERFORMANCE

Results Of Operations

Net earnings for the year were $19,437,000 compared to prior year earnings of $18,406,000. Basic earnings per share for 2004 were $6.30, a 5% increase over 2003 earnings per share of $6.00. Fiscal 2004 represents the second highest earnings per share in the Company's history, primarily due to the results of the Community Development Division. The fourth quarter results represent the highest quarterly earnings per share in the Company's history (please refer to page 26 of this MD&A for 4th quarter commentary).

FINANCIAL HIGHLIGHTS ($)	YEAR ENDED DEC. 31, 2004	DEC. 31, 2003	THREE MONTHS ENDED DEC. 31, 2004	DEC. 31, 2003
Revenue	88,339,000	80,035,000	35,891,000	19,592,000
Earnings	19,437,000	18,406,000	9,709,000	6,045,000
Assets	282,348,000	251,702,000	282,348,000	251,702,000
Shareholders' equity	153,541,000	140,737,000	153,541,000	140,737,000
PER SHARE				
Basic earnings	6.30	6.00	3.16	1.97
Diluted earnings	6.15	5.86	3.06	1.90
Book value	50.27	45.65	50.27	45.65

Summary of Quarterly Results

Financial information for the prior eight fiscal quarters is as follows:

	Revenues ($000's)	Net Earnings ($000's)	EARNING PER COMMON SHARE Basic ($)	Diluted ($)
March 31, 2003	20,894	3,617	1.18	1.18
June 30, 2003	9,554	2,241	0.73	.71
September 30, 2003	29,995	6,503	2.12	2.07
December 31, 2003	19,592	6,045	1.97	1.90
March 31, 2004	15,624	2,746	.89	.88
June 30, 2004	15,356	2,909	.94	.92
September 30, 2004	21,468	4,073	1.31	1.29
December 31, 2004	35,891	9,709	3.16	3.06

Selected Annual Information

($000)	2004	2003	2002	2001	2000
Revenue	88,339	80,035	110,565	82,607	61,221
Earnings	19,437	18,406	23,089	15,971	10,630
Assets	282,348	251,702	231,795	177,218	158,786
Liabilities	128,807	110,965	105,284	70,500	65,901
Equity	153,541	140,737	126,511	106,718	92,885
($)					
Basic earnings per share	6.30	6.00	7.58	5.26	3.48
Diluted earnings per share	6.15	5.86	7.41	5.21	3.48
Dividends per share	1.20	1.10	1.00	.90	.80

Corporate Risk

The cyclical nature of the Company's business along with 96% of its assets being located in Alberta, may subject Melcor to greater risks than Companies that are more geographically diversified.

Various factors which are not in management's control can impact the Company's business. These factors include:

- interest and inflation rates;
- general economic conditions in the regions in which the Company operates;
- population growth and migration;
- job creation and employment patterns;
- consumer confidence;
- pricing of input costs;
- competitors strategies;
- government policies, regulations and taxation; and
- availability of financing for real estate assets.

Community Development Operations

The Community Development Division is responsible for the acquisition, planning, development and marketing of urban communities. Although the division predominantly develops mixed-use residential communities, it also develops large-scale commercial and industrial centres in the Edmonton and Calgary regions. Residential lots and parcels are sold to selected homebuilders that purchase sites through agreements for sale.

Strategic initiatives for 2005 – 2007 include:

- Acquire land inventory which will improve the market share of Melcor, primarily in Alberta, and yield acceptable financial returns;
- Investigate opportunities for expansion to British Columbia and the south-western USA;
- Manage staff resources to facilitate the successful implementation of development activities; and
- Obtain major regulatory approvals in the Calgary Region (i.e. various area structure plans, annexations and advance the planning for a golf course and manufactured home community).

Operating Review ($000)	2004	2003	2002	2001	2000
Revenue	75,359	72,556	101,422	73,778	56,554
Cost of sales	(43,830)	(42,259)	(62,567)	(44,746)	(34,480)
Net operating income (NOI)[1]	31,529	30,297	38,855	29,032	22,074
Interest revenue	1,545	2,130	1,569	1,360	1,012
Interest expense	(225)	(234)	(252)	(328)	(205)
	32,849	32,193	40,172	30,064	22,881
Administrative expenses	(3,260)	(3,198)	(3,746)	(2,823)	(3,242)
Divisional earnings	29,589	28,995	36,426	27,241	19,639

[1] See *"Non-GAAP Financial Measures"* section

Selected Financial Benchmarks ($000's)	2004	2003	2002	2001	2000
ASSETS					
Agreements receivable	43,508	46,904	57,094	43,704	34,927
Land inventory	163,694	141,004	116,904	88,655	92,036
	207,202	187,908	173,998	132,359	126,963
DEBT					
Bank debt	10,167	1,642	839	11,929	14,088
Provision for land development costs	18,962	15,072	13,763	6,371	10,587
Debt on land inventory	40,311	35,885	29,530	12,975	10,760
	69,440	52,599	44,132	31,275	35,435
Net investment	137,762	135,309	129,866	101,084	91,528
NOI as % of revenue[2]	41.8%	41.8%	38.3%	39.4%	39.0%
Divisional earnings as % of net investment[2]	21.7%	21.9%	31.5%	28.3%	22.6%
% of assets financed[2]	33.5%	28.0%	25.4%	23.6%	27.9%

[2] See *"Calculations" in "Non-GAAP Financial Measures"* section

SALES ACTIVITY & REGIONAL HIGHLIGHTS

A) Sales Activity

Total sales for the division were $75,359,000 in 2004 versus $72,556,000 in the prior year. During the year, twenty two subdivisions were developed in 15 communities compared to twenty three subdivisions developed in 15 communities in the prior year.

Residential Lot Sale History (including joint ventures at 100%)	2004	2003	2002	2001	2000
Edmonton	520	428	775	437	348
Red Deer	258	401	455	268	123
Calgary	199	325	504	459	421
Lethbridge	118	100	87	48	64
Arizona	13	4	-	2	3
	1,108	1,258	1,821	1,214	959

Multi-Family and Commercial Sales (including prorata joint venture interests and intersegment transactions)	MULTI-FAMILY AND COMMERCIAL ACRES	MULTI-FAMILY AND COMMERCIAL SALES ($)	SALE OF NON-STRATEGIC LANDS (ACRES)
2004	37	8,690,000	146
2003	59	11,997,000	-
2002	32	8,937,000	17
2001	44	16,653,000	152
2000	33	9,719,000	3

Subject to continuing strong markets for the next two or three years, the division as a whole is expected to perform at levels above its ten year average financial results. Results within individual regions, however, will vary due to:

- the nature of existing land holdings;
- timing of approvals; and
- success in completing strategic new acquisitions.

B) General Comments

Earnings for 2004 for the Community Development Division exceeded expectations in three areas. Firstly, overall sales activity was higher than expected. Secondly, increases in input costs were not as high as expected. Thirdly, increases in sales prices were higher than expected and more than offset increases in land and servicing costs. The sales mix of product type was such that the average selling price of a lot in 2004 was $53,500 ($74,000 if lot quantities are factored at % of ownership) compared to $47,000 ($58,600 if lot quantities are factored at % of ownership) in the prior year.

C) Edmonton Region

The Company has active developments in the Cities of Spruce Grove, Leduc and St. Albert as well as the south west and west end areas of Edmonton. Although housing starts in the region were virtually the same as in 2003, the Company showed a 21% increase in lot sales and a consequent improvement in market share. The primary reason for this increase is due to the registration during the fourth quarter of 2004 of a new community in south west Edmonton called Magrath. This resulted in 101 lot sales, the sale of 9.4 acres of multi-family sites and generated net revenue of $7,989,000.

The division purchased 150 acres of land on the west end of Edmonton adjoining its Lewis Estates Community, 160 acres adjoining the Company's Bridgeport Community in Leduc and 155 acres in the County of Parkland, bordering on the City of Spruce Grove.

D) Calgary Region

The Company is active in the Town of Chestermere where most of the region's revenue was realized. This single source of revenue is the primary reason why lot sales were at their lowest level of activity since 1995. The absence of sales in the Company's Arbour Lake Community in north west Calgary, which is now completed, combined with delays in approvals of new projects, have impeded current sales activities of this region. These new projects include:

- The Highview Community in south east area of the City of Airdrie where lands were annexed in 2003 (marketing will commence in 2005);
- Industrial / commercial lands near the Calgary International Airport (development timing is still uncertain);
- Residential lands north of the Canada Olympic Park (marketing may commence in 2005); and
- Lands to the west of the City of Calgary which have not yet been annexed.

During the year, the Company purchased a 50% interest in 227 acres of primarily commercial-industrial lands, adjoining its Highview development. Marketing and sales will commence in 2005. The Company also purchased 50 acres of land in the Symons Valley region in Calgary which is several years from development.

The new projects in the City of Airdrie (referenced above) together with the ongoing sales activity in the Town of Chestermere, is expected to produce improved regional performance in 2005.

E) Red Deer Region

The Company is primarily active in two communities in the south east part of the City of Red Deer. While lot sales were below the record activity of the prior two years, 2004's sales volume is considered very satisfactory and at a level that can be maintained for the foreseeable future.

The Company added to its strategic land holdings by purchasing 29 acres in the north east which will allow the Company to begin development in a new community. The Company also purchased 138 acres of land adjoining the City of Red Deer which requires annexation.

F) Lethbridge Region

The Company is active in the north part of the City of Lethbridge in a new community called Legacy Ridge, in the south part of Lethbridge in a community called Paradise Canyon and in the west end of Lethbridge in a community called Willowridge, which is near completion.

The Company recorded 118 lot sales during the year, which is the highest annual activity ever recorded for that region. With its current supply of strategic lands, the Company is expected to grow its market share in the Lethbridge market for the foreseeable future.

An important transaction during the year was the completion of an exchange of lands with the City of Lethbridge which allowed the Company to commence its Legacy Ridge project. The Company also purchased 74 acres of land in the south part of Lethbridge near its Paradise Canyon development.

G) Other Regions

The Company continued to sell land in Tucson, Arizona and to work on development approvals in Kelowna, British Columbia.

H) Summary

It is expected that all regions in Alberta will continue with strong performances in the current economy. The Company is positioned to maintain or increase market share in all regions. Although margins continue to be pressured by rising input costs, it is expected that the market will absorb the increases in sales prices.

INVENTORY

Developed Inventory Carry Forward Schedule

Residential Lot Sale Inventory

(including joint ventures at 100%)	2004	2003	2002	2001	2000
At beginning of the year	677	613	859	1,012	867
New developments	1,210	1,322	1,575	1,061	1,104
Sales	(1,108)	(1,258)	(1,821)	(1,214)	(959)
	779	677	613	859	1,012

Multi-Family/Commercial Site Inventory (in acres)	2004	2003	2002	2001	2000
At beginning of the year	80	79	55	60	50
New developments	49	60	56	39	43
Sales	(37)	(59)	(32)	(44)	(33)
	92	80	79	55	60

Undeveloped Inventory Carry Forward Schedule

Land Inventory (in acres)	2004	2003	2002	2001	2000
At beginning of the year	5,659	5,197	4,290	4,403	4,516
Purchases	919	820	1,201	259	140
Sales	(146)	-	(17)	(152)	(3)
Developed	(273)	(358)	(277)	(220)	(250)
	6,159	5,659	5,197	4,290	4,403
Average cost per acre ($)	17,900	16,400	13,500	10,800	9,700

The acquisition of land inventory is based upon our anticipation of market demand and development potential, primarily within five years. Land purchases during the last five years are as follows:

Land Purchases (in acres)	2004	2003	2002	2001	2000
Edmonton	465	261	285	100	140
Calgary	165	197	597	122	-
Red Deer	167	342	160	37	-
Lethbridge	122	-	50	-	-
Kelowna	-	20	119	-	-
	919	820	1,211	259	140
Land cost	22,749	26,066	34,230	7,443	4,969
Vendor financing	(12,395)	(13,596)	(10,286)	(3,963)	(3,435)
Net cash used for acquisitions	10,354	12,470	23,944	3,480	1,534

LAND HOLDINGS

Land Inventory by Region	DEVELOPED INVENTORY			UNDEVELOPED INVENTORY
	Residential Lots	Residential Acres	Commercial/Industrial Acres	Total Acres
NORTHERN ALBERTA				
Edmonton	217	12	14	1,296
Spruce Grove	110	-	12	585
County of Parkland	-	-	-	570
Leduc	64	3	8	262
St. Albert	33	-	-	66
SOUTHERN ALBERTA				
Calgary	2	-	3	490
Airdrie	-	-	-	244
M.D. Rockyview	-	-	-	1,349
Chestermere	137	4	36	73
Lethbridge	95	-	-	322
CENTRAL ALBERTA				
Red Deer	121	-	-	709
CENTRAL BRITISH COLUMBIA				
Kelowna	-	-	-	139
ARIZONA				
Phoenix	-	-	-	5
Tucson	-	-	-	49
DECEMBER 31, 2004	779	19	73	6,159
DECEMBER 31, 2003	677	16	64	5,659

Undeveloped land inventory is an aggregate of raw land which, in some cases, may be several years from development, and unregistered projects and their related predevelopment costs. Predevelopment costs include the cost of regulatory approvals, planning, engineering and infrastructure servicing. The latter can be significant in instances where utilities or roadways are constructed over expanses of raw land in order to bring services or access to subdivisions that are being developed. Land inventory increased by $22,690,000 primarily due to land acquisitions of $22,749,000.

FINANCING

The division attempts to finance its land acquisition activities by obtaining vendor financing on a portion of the acquisition price. Please see the "Financial Instruments" section of this MD&A for further information.

The division may also access a credit facility which, on a margined basis, allows for the borrowing of money using agreements receivable and developed land inventory as collateral. Please see the "Liquidity" section of this MD&A for further information.

RISK FACTORS

Residential lot sales are influenced by the demand for new housing which is impacted by interest rates, growth in employment, immigration, new family units and the size of these units. Our ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations which affect the planning, subdivision and use of land. The lengthy planning and approval process can take up to eighteen months. During this period, the market conditions in general and / or the market for lots in the size and price range in our developments may change.

The timing of revenue recognition is dependant upon the occurrence of plan registrations. Plan registrations are the result of an exacting process. Various interested parties and approval agencies are involved. While associated requirements are generally predictable in terms of certainty of resolution, they are less predictable in terms of timing.

The Company must manage its assets to ensure that it has adequate financial and operational cash flow to support the holding cost of its inventory and land holdings.

Management attempts to mitigate these risks by:

- Developing in the vicinity of major population and employment centres in Alberta where we have developed land for decades;
- Making the strategic acquisition of land for future development a priority;
- Marketing lots in various sizes and price ranges in all regions in which we carry on development programs;
- Monitoring market conditions by maintaining close contacts with our customers, industry associations and forecasting agencies;
- Managing and participating in joint ventures;
- Contracting highly regarded professional consultants as required rather than having them on staff; and
- Practicing an environmental program to minimize risk on acquisitions and development.

Property Development Operations

The Property Development Division acquires commercial sites from the Community Development Division at fair market value with the goal of creating additional value by developing the sites into revenue producing properties. Once completed, these assets are transferred at fair market value to the Investment Property Division, with a mandate to hold and manage them. The profit earned on transfer, is eliminated upon consolidation.

Strategic initiatives for 2005 - 2007 include:

- To implement the Business Plan for the Division to meet objectives of asset diversification, income growth and stability;
- To commence new commercial developments on land created through land development activities in Alberta;
- To continue leasing and development of Leduc Common; and
- To advance projects in Spruce Grove, Calgary and Edmonton.

Operating Review ($000)	2004	2003	2002	2001	2000
Interdivisional sales	4,058	2,692	13,650	2,600	-
Cost of sales	(3,582)	(2,296)	(11,533)	(2,230)	-
Net operating income (NOI)[1]	476	396	2,117	370	-
Administrative expenses	(263)	(235)	(257)	(128)	-
Divisional earnings	213	161	1,860	242	-

[1] See *"Non-GAAP Financial Measures"* section

SALES ACTIVITY

During the year, two additional properties within the Leduc Common retail development were completed and transferred to the Investment Property Division. This represents about 45% of the total project, which will be completed over the next 1 or 2 years depending on leasing activity. The prior year included the transfer of the first phase of development of Leduc Common to the investment property division.

DEVELOPMENT ACTIVITY

In addition to the ongoing development of Leduc Common, the division has identified three projects that are planned to proceed in 2005, namely:

- Chestermere Station – 100,000 square foot retail centre adjoining a major food anchor site;
- Crowfoot West Business Centre – 115,000 square foot retail / office building; and
- Magrath Heights Shopping Centre – 120,000 square foot retail / office project in southwest Edmonton.

FINANCING

The division funds its operations through interim financing from financial institutions or from internal sources. Historically, the division has been successful in obtaining very competitive long-term fixed rate financing terms by waiting until the asset has been built and substantially leased. Typically, the division has obtained a 75% loan to value ratio based on the appraisal value of its assets. As at December 31, 2004, there was no debt in this division.

RISK FACTORS

The major risks include:

- Leasing risks (finding qualified tenants to lease the completed space);
- Construction risks (managing the cost and quality of developing the project); and
- Financing risks (ensuring the project has adequate financing resources).

Management attempts to mitigate these risks by:

- developing in the vicinity of major population and employment centres where the Company conducts business and owns similar assets;
- hiring professional consulting firms to aid in the planning and design of the project;
- using professional consultants and realtors to market the new projects;
- analysing market conditions and evaluating potential customers;
- obtaining adequate pre-leasing levels prior to construction;
- acquiring the land after the project is approved (i.e. sites are not inventoried);
- contracting with reputable construction companies that use fixed / target price contracts;
- constantly monitoring leasing activity, construction progress and project costs; and
- communicating with financial institutions regarding interim and take-out financing.

Investment Property Operations

The Investment Property Division has established itself as a key contributor to the continuing success of Melcor as one of Alberta's premier real estate development Companies. The majority of the division's assets are managed by the Company.

Strategic initiatives for 2005 – 2007 include:

- To implement the Business Plan for the Division to meet objectives of increasing the return on investment;
- To acquire new investment properties (i.e. Class "B" office buildings in Edmonton) where significant increased value can be created within a 5-year timeframe;
- To enhance the quality of the portfolio's assets by upgrading their appearance, functionality and desirability thereby increasing their rental outputs;
- To focus on client retention through continual customer contact and ongoing service evaluation;
- To obtain and maintain financing to ensure reasonable leverage of its assets;
- To update and execute detailed leasing strategy for each asset; and
- To increase occupancy levels by 2%.

Operating Review ($000)	2004	2003	2002	2001	2000
Rental revenue	12,088	10,235	7,651	6,218	4,877
Operating expenses	(6,144)	(5,676)	(3,981)	(3,565)	(2,692)
Net operating income (NOI) [1]	5,944	4,559	3,670	2,653	2,185
Interest income	11	17	-	-	-
Interest expense	(2,234)	(2,083)	(1,219)	(1,017)	(1,014)
Depreciation	(1,148)	(715)	(549)	(475)	(390)
Amortization of tenant leasing costs	(884)	(713)	(721)	(269)	(162)
Administrative expenses	(322)	(338)	(201)	(178)	(460)
Earnings from operations	1,367	727	980	714	159
Gain (loss) on sale of assets	-	1,559	991	-	464
Loss on sale of land	-	-	-	(504)	-
Divisional earnings	1,367	2,286	1,971	210	623

[1] See *"Non-GAAP Financial Measures"* section

The Investment Property Division experienced significant growth in 2004 in revenues, net operating income and earnings from operations. Overall, occupancy went up from 81% to 85%. This exceeded the division's goal of increasing occupancy by 3% during 2004. While this increased occupancy and growth in operational performances is partly a result of acquisitions, the majority of the growth is a result of better performance from the existing portfolio.

A same building calculation comparing 2003 results to 2004 results reveals 4% increase in total revenues, 20% increase in net operating income and an overall increase of 66% for net earnings. Depreciation expense increased by $433,000 or 61%. A change in accounting policy accounted for $255,000 of the increase while $178,000 was a result of depreciation on new assets.

Selected Financial Benchmarks ($000)	2004	2003	2002	2001	2000
Asset book value	56,408	50,820	43,853	36,790	23,419
Financing	(34,354)	(35,573)	(29,280)	(15,539)	(11,346)
Net investment	22,054	15,247	14,573	21,251	12,073
EBITDA [1]	4,738	3,508	2,748	2,206	1,563
NOI as % of rental revenue [2]	49.2%	44.5%	48.0%	42.7%	44.8%
Earnings from operations as % of net investment [2]	7.3%	4.9%	5.5%	4.3%	1.6%
Divisional earnings as % of net investment [2]	7.3%	15.3%	11.0%	1.3%	6.4%
EBITDA as % of net investment [2]	25.4%	23.5%	15.3%	13.2%	15.9%
EBITDA as % of asset cost [2]	8.8%	7.4%	6.7%	6.9%	6.3%
% assets financed [2]	60.9%	70.0%	66.8%	42.2%	48.4%

[1] See *"Non-GAAP Financial Measures"* section

[2] See *"Calculations"* in *"Non-GAAP Financial Measures"* section

Asset book value comprises commercial properties, manufactured home property, tenant leasing costs and major repairs which are recoverable from tenants. Subsequent to the year end, the Company was advanced net mortgage proceeds of $4,293,000 relating to the financing of the Kingsway Business Centre (acquired June 30, 2004) and refinancing of a building whose mortgage became due in 2004.

PROPERTY HOLDINGS

		RENTABLE SQUARE FEET			% LEASED	
Location/Name	Year Acquired	Office	Retail	Total	2004	2003
BUILDINGS						
Edmonton, Alberta						
Melton Building	1973	100,803	12,130	112,933	78	74
Corinthia Plaza	1975	-	23,143	23,143	93	74
Westcor Building	1978	58,024	12,811	70,835	95	97
Princeton Place	1999	50,137	8,448	58,585	69	56
Capilano Centre (*)	1999	68,906	29,550	98,456	76	83
Trans Alta Place	2000	44,064	3,032	47,096	81	79
Birks Building	2001	24,801	10,928	35,729	67	62
Westgate Business Centre	2001	63,953	-	63,953	100	97
Glentel Building	2002	15,968	-	15,968	100	100
Associated Centre	2002	53,951	18,820	72,771	85	65
Leduc Common	2003/2004	-	31,402	31,402	81	-
Sterling Business Centre	2003	67,909	-	67,909	100	100
Kingsway Business Centre	2004	36,061	-	36,061	93	-
Calgary, Alberta						
Kensington Road Building	1980	17,867	5,984	23,851	59	59
Crowfoot Centre	2002	44,924	23,699	68,623	99	94
Regina, Saskatchewan						
Albert Street Building	1979	6,150	-	6,150	93	100
University Park Plaza	1981	-	41,206	41,206	66	94
		653,518	221,153	874,671	85	81

				% LEASED	
Location/Name	Year Acquired	Units	Square Feet	2004	2003
OTHER REVENUE ASSETS					
Edmonton, Alberta					
104 Street Parking Lot #1	2001	28		100	100
104 Street Parking Lot #2	2002	28		100	100
Leduc Common (land leases)	2003/2004		44,000	100	100
Calgary, Alberta					
Crowfoot Circle (land lease)	1999		43,560	100	100
5th & 9th Street Parking Lot	1980/2003	68		100	100
MANUFACTURED HOME COMMUNITY					
Calgary, Alberta					
Watergrove (*)	1995	308		100	100

(* Joint Venture)

PROPERTY TRANSACTIONS

The division had the following additions in 2004:

- A suburban office complex comprising two buildings known as the "Kingsway Business Centre" (36,061 square feet) located on Kingsway Avenue (acquired June 30, 2004);
- Two properties were acquired from the Property Development Division including a land lease to a national retailer and a 20,819 square foot retail building that was 89% leased at the time of transfer; and
- The division commenced construction of a 10,800 square foot building on lands which is an expansion of the Westgate Business Centre. This pre-leased building will be completed during the second quarter of 2005 and will commence generating rental income at that time.

FINANCING

The division normally finances its assets with fixed rate long-term mortgage financing. The advantages of this strategy include:

- Reduction of interest rate risk as mortgages are financed over fixed terms of five to ten years;
- Returns are increased due to leverage; and
- Cash flow from financing helps to fund asset acquisitions thus allowing the division to expand its asset base without using cash from other divisions.

Those assets where performance is below optimum levels needed to obtain market rates or desired leverage, are either left unencumbered or financed with short term, floating rates until such time as performance improves and satisfactory financing is attainable.

See the "Financial Instruments" section of this MD&A for further information.

RISK FACTORS

The two major risks affecting the division are.retaining existing tenants and attracting new tenants. The division is subject to the market conditions in the geographic areas where it owns properties. As these market conditions change, the ability to achieve higher occupancy rates also changes. Market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Management attempts to mitigate these risks by:

- owning properties in the vicinity of major population and employment centres, (normally in areas where we also develop land for resale);
- diversifying the type of investment properties in the portfolio;
- managing and participating in Joint Ventures;
- purchasing properties that are below replacement value, which improves prospects for future appreciation in lease rates and property values;
- obtaining long-term, fixed-rate financing when the features of the specific property meet conditions that generate competitive financing terms;
- managing our buildings so as to have competitive operating costs; and
- maintaining adequate insurance coverage to protect the division's income stream, assets and exposure to third party claims.

Recreational Property Operations

This division owns and manages two 18-hole championship golf courses, The Links at Spruce Grove and Lewis Estates Golf Course (60% joint venture).

Strategic initiatives for 2005 - 2007 include:

- To enhance divisional performance through revenue enhancements and potential acquisitions of golf course properties; and
- To continue performing due diligence on the development of a golf course in the Calgary region.

Operating Review ($000)	2004	2003	2002	2001	2000
Revenue	2,756	2,951	2,908	2,701	2,630
Operating costs	(1,434)	(1,416)	(1,414)	(1,293)	(1,280)
Net operating income (NOI) [1]	1,322	1,535	1,494	1,408	1,350
Interest expense	(88)	(108)	(52)	(65)	(70)
Administrative expenses	(525)	(553)	(529)	(518)	(516)
Depreciation expense	(241)	(267)	(249)	(263)	(258)
Gain on sale of capital assets	-	19	12	31	15
Divisional earnings	468	626	676	593	521

[1] See *"Non-GAAP Financial Measures"* section

Selected Financial Benchmarks ($000)	2004	2003	2002	2001	2000
Asset cost	**5,892**	5,647	5,432	5,343	5,059
Accumulated depreciation	**(3,047)**	(2,806)	(2,644)	(2,416)	(2,226)
	2,845	2,841	2,788	2,927	2,833
Less debt related to golf courses	**(1,602)**	(1,762)	(1,890)	(1,060)	(835)
Net investment	**1,243**	1,079	898	1,867	1,998
EBITDA [1]	**1,081**	1,002	977	921	849
NOI as % of revenue [2]	**48.0%**	52.0%	51.4%	52.1%	51.3%
Divisional earnings as % of net investment [2]	**40.3%**	63.3%	48.9%	30.7%	25.7%
EBITDA as % of net investment [2]	**93.1%**	101.4%	70.7%	47.7%	41.9%
EBITDA as % of asset cost [2]	**18.7%**	18.1%	18.1%	17.7%	17.0%
% assets financed [2]	**56.3%**	62.0%	67.8%	36.2%	29.5%

[1] See *"Non-GAAP Financial Measures"* section

[2] See *"Calculations"* in *"Non-GAAP Financial Measures"* section

Revenue and earnings in 2004 were down due to the relatively late start of the golf season and an extraordinary number of playing days lost due to poor weather. Prior to the current year, revenue and EBITDA[1] had increased each year due to greens fee increases, satisfactory number of rounds being played and excellent cost control. Weather permitting, the Company expects to get back to revenue and earnings growth for 2005.

OPERATIONAL ACTIVITY

The courses are maintained consistent with the adopted objectives of a recognized championship public golf course. This helps to maintain a positive economic balance between the level of the course fees, the number of rounds attracted and the level of enjoyment experienced by our customers as it relates to course conditions. In the past several years, both courses have gained a reputation for their excellent condition overall.

EQUIPMENT / ASSETS

The division purchases and maintains recognized brand name grounds-keeping equipment, which allow grounds crews to perform a superior job. Golf carts are replaced every 6 to 8 years.

FINANCING

The division's financing goals are similar to those of the Investment Property Division (i.e. to obtain long-term fixed rate financing).

Currently, the Lewis Estates Golf Course is financed with a variable rate mortgage and is part of a comprehensive financing arrangement which also includes an agreement payable on undeveloped land. The Links at Spruce Grove is unencumbered at this time.

RISK FACTORS

The primary risk factor is to continue to attract golfers to play at the division's golf courses. Golf course results are subject to weather, number of playing days, competition from other courses, the amount of disposable income available to customers to spend on recreational activity, popularity of the sport and the cost of providing desirable playing conditions.

Management attempts to mitigate these risks by:

- owning golf courses near high population areas;
- keeping green fees competitive, but sufficient to maintain a high standard of course conditions;
- servicing the corporate golf tournament business, which increases the number of sold out days and provides revenue on marginal weather days;
- building good practice facilities at the courses and by providing excellent professional golf instruction; and
- practicing efficient, courteous and professional customer relations to encourage patrons to return.

LIQUIDITY

Management believes that with the projected level of operations for 2005, our capital commitments and the availability of funds under the established credit facility, the Company will have sufficient capital to fund its operations.

The Company is relatively conservative as it relates to its use of debt to finance its operations. This is evidenced by the debt to equity ratio over the past 5 years which is as follows:

	2004	2003	2002	2001	2000
	.84 to 1	.79 to 1	.83 to 1	.66 to 1	.71 to 1

The Company has an ongoing requirement to finance its operations. The Company has a credit facility with a major chartered bank. Under the terms of this facility, the Company pledges specific agreements receivable, specific lot inventory and a general security agreement as collateral. This credit facility may be terminated by the bank upon one year's notice and may be modified to meet the Company's needs. A summary of the credit facility is as follows:

($000)	2004	2003	2002	2001
Supportable credit limit	43,500	51,000	53,000	45,000
Credit limit approved	29,650	31,000	26,950	24,700
Credit used	10,167	1,642	839	11,929

In addition to the credit facility above, the Company can raise equity, capital and debt financing as discussed in the "Capital Resources" section of this MD&A.

Cash Flows

Cash flows from operating activities were up by $5,766,000 primarily because 2004 net earnings, after adjustment of non-cash items, were $5,504,000 higher than in the prior year. Collection of agreements receivable generated $3,396,000 in 2004 versus $9,868,000 in 2003 which was mainly a result of collecting a significant portion of the record sales recorded in 2002. Cash flows from agreements receivable were offset by a positive generation of cash from development activities and a reduction in the use of cash in other operating assets and liabilities.

Cash used in investing activities in 2004 was similar to that which was used in the prior year.

Cash used in financing activities was higher in 2004 by $4,227,000. The bank operating loan generated an additional source of $7,722,000 in the current year. The Investment Property Division did not have any new mortgages in 2004 (versus $11,017,000 in the prior year) but only used $1,379,000 to repay mortgage debt compared to $4,852,000 in the prior year. The Company also used $3,063,000 to purchase shares under the normal course issuer bid.

Contractual obligations include:

($000)	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long term debt	76,267	12,015	18,984	12,720	32,548
Operating leases	72	24	48	-	-
Purchase obligations	1,200	1,200	-	-	-
Total contractual obligations	77,539	13,239	19,032	12,720	32,548

Management believes that with the projected level of operations for 2005, our capital commitments and the availability of funds under the established credit facility, the Company will have sufficient capital to fund its operations and to continue investing in land inventory and in revenue producing properties.

CAPITAL RESOURCES

Equity

The Company has issued options to its employees. As these options become vested, they can be exercised by the employee, thus raising share capital for the Company. If all outstanding options are exercised at their earliest date, the Company stands to raise $5,228,000 in share capital by 2011 See the "Outstanding Share Data" section in this MD&A for further information.

The Company has an outstanding normal course issuer bid which allows the Company to purchase up to 155,000 common shares during a one year period ending on September 15, 2005. In 2004, the Company purchased 62,000 common shares under the bid for $3,062,280 and, subsequent to the year end, the Company purchased an additional 62,000 common shares for $3,286,000. The Company will consider acquiring up to a further 31,000 common shares under the normal course issuer bid prior to September 15, 2005. If the Company is successful in purchasing additional shares under the bid, capital resources will be used depending on the quantity of shares purchased.

Debt

The Company could raise additional financing from the following sources:

- Credit facility (see the "Liquidity" section of this MD&A for further information);
- Refinance existing investment property assets (see the "Financial Instruments" section of this MD&A for further information);
- Place interim or take-out financing for properties under development within the Property Development Division; and
- Place new financing on unencumbered investment properties.

OFF BALANCE SHEET ARRANGEMENTS

Letters Of Credit

The Company has an ongoing requirement to provide letters of credit to municipalities as part of the subdivision plan registration process. These securities would provide a source of funds to the municipalities that would allow them to complete the construction of the subdivision should the Company not be able to. The amount of any particular letter of credit is reduced at various stages of construction. Once the municipality issues a certificate acknowledging completion of the project the letter of credit is cancelled.

The Company records the estimated cost of completion, for all single family lots and multi family sites sold, as a liability in "Provision for land development costs" in the balance sheet. The amount of individual letters of credit will normally exceed the related liability recorded in the accounts due to the timing of the ongoing expenditures which are incurred as the project is being developed compared to the timing of reductions in the balance of the corresponding letter of credit.

The Company's letter of credit facility is part of the Company's overall credit facility that was negotiated with a major Canadian chartered bank. The Company's letter of credit balances over the past three years, net of joint venture interests is:

($000)	2004	2003	2002
Total facility	25,256	24,675	23,150
Amount outstanding	(15,886)	(17,800)	(14,900)
Available for issue	9,370	6,875	8,250

Joint Venture Guarantees

The Company has a history of conducting a significant portion of its business through joint ventures as a way of diversifying development and investment risk. Currently, Melcor is a participant and manager in 13 joint ventures. As manager, the Company has arranged appropriate credit facilities for all active joint ventures which margin pre-development work, agreements receivable and lot inventory to provide a line of credit facility to accommodate development activities. In some cases, the Company's guarantee for these facilities goes beyond the Company's proportionate share of the liability. The following table illustrates guarantees made by the Company related to joint venture agreements.

($000)	2004	2003	2002
Net loan guarantees	10,563	9,025	8,525
Letter of credit guarantees	3,580	2,622	1,898
Amounts secured by joint venture agreements	14,143	11,647	10,423

To mitigate the possibility of financial loss, Melcor is diligent in its selection of joint venture participants. As well, Melcor has remedies available within the Joint Venture Agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint venture participants.

Joint Venture Activity

The Company uses the proportionate consolidation method to account for its joint ventures. The following table illustrates selected financial data related to joint ventures at 100% as well as the net portion relevant to Melcor.

Joint Venture Activity at 100% ($000)	2004	2003	2002	2001	2000
Revenue	63,857	45,068	47,852	32,151	23,462
Earnings	21,588	16,171	14,149	9,709	6,872
Assets	161,254	109,310	94,677	67,232	62,621
Liabilities	84,659	49,724	48,977	34,158	30,090

Melcor's Portion (33.3% - 75.0%) ($000)	2004	2003	2002	2001	2000
Revenue	34,117	26,782	25,947	15,507	11,636
Earnings	11,133	8,947	7,325	4,397	3,241
Assets	85,600	57,862	50,034	33,467	30,271
Liabilities	44,968	26,130	28,785	17,522	15,344

The activities of the thirteen joint ventures are as follows:

- (1) Commercial Property;
- (1) Manufactured Home Community;
- (1) Active land development and golf course operations;
- (1) Active land development with commercial property development activities expected to commence in 2005;
- (6) Active land development activities;
- (2) Non-active land development with activities expected to commence in 2005; and
- (1) Non-active land development with activities expected to commence in about 3 years.

CRITICAL ACCOUNTING ESTIMATES

The Company's most significant estimates relate to measuring cost of sales in the Community Development Division which sells parcels of land prior to all costs being committed or known. These estimates are necessary to facilitate the reporting of earnings. The nature of the land development industry includes lengthy time frames to complete all municipal requirements.

When the Community Development Division obtains plan registration for a new phase of a subdivision, the estimated total cost to build the phase is determined and once a lot sale is recorded, the estimated unexpended portion of that cost is set up as a liability in the "Provision for land development costs".

The division uses independent consultants to help in the preparation of construction budgets, which tend to be conservative in nature. When actual development costs related to the subdivision are incurred, they are applied against the provision.

At least once per year, actual costs are reviewed against the budget and revisions are made when the estimated unexpended portion of the provision is known to be materially different from the revised estimate to complete the project.

The most significant factors causing revisions to estimates are as follows:

- Increases / decreases to contract amounts from when they are estimated to when they are actually awarded;
- Changes in costs that are contracted by the unit and the number of units vary from the estimate (i.e. volume of earth required to be moved); and
- Other changes typical in a construction environment where future events and uncertainty cannot be reasonably predicted, such as contingencies and allowances for those items which can only be estimated within a range of values and are known only after project completion.

The market conditions of the past four years have been somewhat more volatile than they had been in years prior. Suppliers of development inputs are working at capacity. This has increased the risk of making estimation errors.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Due to a new handbook section for identifying appropriate sources of generally accepted accounting principles, and the doctrines that constitute generally accepted accounting principles, effective January 1, 2004, the Company discontinued its use of the 5% sinking fund method which was used for all non-golf course investment properties. The Company now amortizes all investment properties using the straight line method. This has increased expense and decreased earnings by about $644,000 in 2004 and by a decreasing amount in subsequent years.

Effective with the adoption of the straight line method of amortization for certain investment property assets, the Company reviewed the useful lives of its investment properties. The Company determined that it's investment property buildings have a useful life of 40 to 60 years. This change in estimate has been accounted for prospectively and will result in an effective annual amortization expense of approximately $389,000 less than would have been recognized under previous estimates of useful lives.

A new standard is in effect for fiscal years beginning on or after January 1, 2004, for recognizing, measuring and disclosing liabilities for asset retirement obligations and the associated asset retirement costs. The Company adopted this policy on January 1, 2004. Adoption of this standard did not result in the recognition of an asset retirement obligation.

A new standard is in effect for recognizing, measuring and disclosing impairment of long-lived assets held for use. The standard requires that an impairment loss be recognized in an amount equal to the difference between carrying value and fair value when the carrying value of a long-lived asset exceeds the undiscounted future cash flows. The Company has adopted the standard for the fiscal year commencing January 1, 2004. After having completed a review of its assets, it has concluded that there is no impairment of long-lived assets.

In June 2003, the CICA issued a new accounting guideline ("AcG15") which requires the consolidation of Variable Interest Entities ("VIEs") by the primary beneficiary. Revisions to this guideline were published by the CICA in August 2004 to harmonize with the VIEs accounting standard that is in place in the United States. A VIE is an entity where:

a) Its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support form others and / or where certain essential characteristics of a controlling financial interest are not met; and

b) It does not meet specified exemption criteria.

The primary beneficiary is the enterprise that will absorb or receive the majority of the VIEs expected losses, expected residual returns, or both. This guideline is effective for the Company's first quarter commencing January 1, 2005.

AcG15 is adopted retroactively. The restatement of prior period financial statements is encouraged, but not required.

The Company is involved in numerous joint ventures and is still in the process of determining which joint ventures, if any, meet the definition of VIEs. To the extent that the accounting for any of these joint ventures will need to change from proportionate consolidation is yet to be determined, the impact on earnings is not expected to be material.

FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, accounts receivable, income taxes receivable, agreements receivable, bank operating loan, accounts payable and accrued liabilities, debt on land inventory and debt on investment properties. The Company believes that the fair value of financial instruments approximates their carrying values. The fair value of cash and cash equivalents, accounts receivable, income taxes receivable, bank operating loan, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

The fair value of agreements receivable are estimated based on the interest bearing nature of these instruments which are at rates consistent with market rates for debt instruments with similar terms to maturity. The fair value of debt on land inventory and debt on investment properties are estimated based on quoted market rates for similar instruments with similar terms.

Agreements receivable are a financing tool used by the Company to assist builders to acquire lots. Normal terms include repayment within one year, interest at prime plus one percent after any provision for an interest relief period and an above market interest rate for balances that are past due. The Company retains title to the lot as security until the lot has been paid in full. The Company seldom incurs bad debt losses in relation to agreements receivable.

Debt on land inventory is normally comprised of loans from the acquisition of land that are primarily held by the land vendor (fixed rate financing with repayments over 3 to 10 years) or from financial institutions (variable rate financing with repayments over 3 to 5 years). In addition, the Company may obtain financing from a financial institution in order to commence major infrastructure in a new community or obtain project financing when the borrowing requirement falls outside the normal parameters that are currently met with a line of credit. This type of loan usually has floating rates of interest tied to prime. The following carry forward table illustrates the changes in debt on land inventory over the past five years:

Debt on land inventory ($000)	2004	2003	2002	2001	2000
Balance at beginning of the year	35,885	29,141	12,776	10,545	25,664
New loans	12,396	13,596	22,644	5,783	4,231
Repayments	(7,970)	(6,852)	(6,279)	(3,552)	(19,350)
Balance at end of the year	40,311	35,885	29,141	12,776	10,545
Weighted average interest rate	4.8%	5.1%	5.8%	5.9%	6.9%

Debt on investment properties includes loans which are normally fixed rate and long-term in nature. Rates are negotiated at a pre-agreed benchmarked bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources. Loan maturity dates are spread out so as to reduce associated loan renewal risks. The following table represents cumulative loan amounts due for renewal over the next eight years:

Year	Loan Renewal Amount ($)	Weighted Average Current Interest Rates	Number of Loans
2005	-	-	-
2006	8,938,000	6.4%	5
2007	-	-	-
2008	6,605,000	5.8%	4
2009	-	-	-
2010	1,335,000	5.7%	1
2011	-	-	-
2012	10,423,000	7.0%	3

Debt on investment properties in the amount of $35,956,000 reflects financing placed on investment properties, which have a net book value of $41,301,000. The following carry forward table illustrates the changes in debt on investment properties over the past five years:

Debt on investment properties ($000)	2004	2003	2002	2001	2000
Balance at beginning of the year	37,335	31,170	16,599	12,181	14,528
New mortgage financing	-	9,100	15,870	5,415	-
Loans assumed	-	1,917	1,971	-	-
Repayments	(1,379)	(4,852)	(3,270)	(997)	(2,347)
Balance at end of the year	35,956	37,335	31,170	16,599	12,181

OUTSTANDING SHARE DATA

The Company has only one class of Common Shares authorized. Their issuance is as follows:

Outstanding shares	2004	2003	2002	2001	2000
Outstanding shares at beginning of year	3,082,803	3,052,113	3,045,723	3,038,903	3,104,303
Options exercised	33,700	30,690	13,190	7,220	-
Shares purchased and cancelled	(62,000)	-	(6,800)	(400)	(65,400)
Outstanding shares at end of year	3,054,503	3,082,803	3,052,113	3,045,723	3,038,903

Outstanding options	2004	2003	2002	2001	2000
Outstanding options at beginning of year	215,700	239,690	162,380	156,500	-
Options granted	1,200	9,300	97,100	15,500	156,500
Options exercised	(33,700)	(30,690)	(13,190)	(7,220)	-
Options forfeited	(1,040)	(2,600)	(6,600)	(2,400)	-
Outstanding options at end of year	182,160	215,700	239,690	162,380	156,500

In the future, the maximum options which could be exercised based on existing employee option programs, are in the table below. This could change if new options are granted or if existing options expire or are forfeited. Also, it could change if employees defer the exercise of their options to periods subsequent to their vesting period.

Exercisable options	2005	2006	2007	2008	2009
Maximum options exercisable in the future	136,560	22,580	20,680	2,100	240
Maximum share capital that could be raised ($)	3,594,000	792,000	746,000	84,000	11,000

FOURTH QUARTER

The results from the fourth quarter in 2004 were the best quarterly net earnings in the history of the Company. The increase in earnings was primarily due to increased land sales in the Community Development division in the Edmonton region which recorded the plan registration of a new community in south west Edmonton called Magrath. This resulted in 101 lot sales, the sale of 9.4 acres of multi-family sites and generated net revenue of $7,989,000. During the fourth quarter, there were 14 plan registrations compared to 12 during the same period in the prior year.

The history of the past (4) fourth quarter results are as follows:

	FOR THE THREE MONTHS ENDED DECEMBER 31ST			
($000)	2004	2003	2002	2001
Revenue	35,891	19,592	38,279	32,163
Cost of sales	(19,947)	(8,991)	(21,143)	(19,121)
	15,944	10,601	17,136	13,042
Interest revenue	415	533	561	371
Interest expense	(603)	(640)	(505)	(338)
General and administrative expenses	(1,714)	(2,019)	(3,291)	(2,722)
Gain on sale of capital assets	-	1	992	-
Earnings before income tax expense	14,042	8,476	14,893	10,353
Income tax expense	(4,333)	(2,431)	(5,545)	(3,072)
Net earnings for the period	9,709	6,045	9,348	7,281
Basic earnings per common share	3.16	1.97	3.07	2.40
Diluted earnings per common share	3.06	1.90	2.98	2.38

Segmented information for the fourth quarter is as follows:

	FOR THE THREE MONTHS ENDED DECEMBER 31, 2004			FOR THE THREE MONTHS ENDED DECEMBER 31, 2003		
RENENUE ($000's)	Segment Revenue	Inter-segment Eliminations	External Revenue	Segment Revenue	Inter-segment Eliminations	External Revenue
Community development	33,234	(704)	32,530	17,625	(849)	16,776
Property development	4,058	(4,058)	-	2,692	(2,692)	-
Investment property	3,271	(52)	3,219	2,695	(75)	2,620
Recreation property	199	(57)	142	247	(51)	196
	40,762	(4,871)	35,891	23,259	(3,667)	19,592
EARNINGS ($000's)	Segment Earnings	Inter-segment Eliminations	External Earnings	Segment Earnings	Inter-segment Eliminations	External Earnings
Community development	14,827	101	14,928	9,012	98	9,110
Property development	373	(475)	(102)	310	(395)	(85)
Investment property	385	(32)	353	278	(55)	223
Recreation property	(164)	(45)	(209)	(176)	(28)	(204)
	15,421	(451)	14,970	9,424	(380)	9,044
NON-ALLOCATED ITEMS:						
Interest income			(26)			66
General and administrative expenses			(902)			(634)
Earnings before income tax expense			14,042			8,476
Income tax expense			(4,333)			(2,431)
Net earnings for the period			9,709			6,045

NON-GAAP FINANCIAL MEASURES

Melcor uses several non-GAAP measures in evaluating and measuring certain performance results. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

Non-GAAP measures include:

- Net Operating Income (NOI) – this measures revenue less direct operating expenses.
- Earnings before interest, taxes (income), depreciation and amortization (EBITDA) – this measure is often used in the real estate industry because it isolates earnings before income taxes (at Melcor's divisional level, income taxes are not applicable), interest expense, depreciation and amortization to measure operating performance. Interest expense can distort the comparable performance of a property as it depends on the amount of financing carried by the property and the interest rate charged on the loan. Depreciation expense can vary depending on depreciation policies, age of the property and depreciable value of the property. Melcor includes amortization of tenant leasing costs as an expense in arriving at EBITDA.

Calculations

The Company uses the following calculations in measuring the performance of its divisions:

a) NOI as % of Revenue = net operating income / revenue

b) Divisional Earnings at % of Net Investment = division earnings / average investment, i.e. [(opening net investment + closing net investment) / 2]

c) Earnings from operations as % of Net Investment = earnings form operations / average investment, i.e. [(opening net investment + closing net investment) / 2]

d) EBITDA as % of Net Investment = EBITDA / average investment, i.e. [(opening net investment + closing net investment) / 2]

e) EBITDA as % of Asset Cost = EBITDA / average asset cost, i.e. [(opening asset cost + closing asset cost) / 2]

f) % of Assets Financed = debt / assets

ASSUMPTIONS FOR 2005 - 2007

- Alberta's economy will continue to experience strong growth leading to high levels of employment and job growth.
- Canada's economy will remain stable with low inflation, low interest rates, a higher dollar (i.e. $.85 range in comparison to $1 US) and moderate business and consumer confidence. Increasing mortgage rates will follow stronger North American economies.
- World demand for Alberta commodities will remain strong, especially demand for oil sands products and natural gas. Trade disputes over live cattle exports and softwood lumber exports will continue in 2005.
- Canada's major trading partners will experience stable economies and continue to import Canadian products. U.S. trade will be pressured due to a growing U.S. trade deficit and security concerns in the U.S.
- The real estate market, especially demand for residential housing will remain strong in Alberta due to affordability, job creation, moderate in migration, confidence and the second generation of the Baby Boom.
- Anti-growth sentiments and financial challenges by municipalities will negatively impact the development industry.
- Increasing real estate inventories and moderating demand will continue to create highly competitive markets while rising input costs will put pressure on margins.
- Melcor will continue to operate in the same business and geographic areas and with the same structure.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Corporation believes in the importance of maintaining sound corporate governance practices. A description of the Corporation's Corporate Governance Practices is set out in Schedule "A" of the Company's Management Information Circular dated February 25, 2005.

The Company Manual of the Toronto Stock Exchange requires that this Statement of Corporate Governance Practices relate the corporate governance practices of the Board to the "Guidelines for Improved Corporate Governance" contained in the December 1994 Report of The Toronto Stock Exchange Committee on Corporate Governance in Canada (the "TSX Report"). The headings which appear in Schedule "A" address the principal matters relating to corporate governance practice guidelines set out in the TSX Company Manual.

In the Statement of Corporate Governance Practices, the terms "unrelated director", "related director" and "outside director" have the meanings given to them in the TSX Company Manual. An unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests arising from shareholding. A related director is a director who is not an unrelated director or who is a member of management.

Standards with respect to corporate governance practices in Canada continue to be in a state of ongoing review and development. At present, the guidelines contained in the TSX Company Manual continue to be the primary governance standard to which Canadian public companies must compare their governance practices. A number of revisions to these governance standards have been proposed and are under consideration. These proposals include proposed changes to the TSX corporate governance guidelines originally published by the TSX in April 2002 to reflect the recommendations of the Joint Committee on Corporate Governance, and subsequently revised in November 2002 to take into account further revisions precipitated by the corporate scandals which surfaced in the United States in mid-2002. On January 16, 2004, the Canadian Securities Administrators published for comment two new documents on corporate governance: proposed National Policy 58-201 "Effective Corporate Governance" and proposed National Instrument 58-101 "Disclosure of Corporate Governance Practices". The comment period has expired. Subject to receiving all necessary government approvals, it is anticipated that these new rules will apply to documents filed following financial years ending June 30, 2005. If and when the proposed National Policy and National Instrument are adopted, the TSX intends to revoke its governance guidelines and related disclosure requirements. The Corporation continues to monitor and adapt to the evolution of corporate governance standards.

MANDATE OF THE BOARD OF DIRECTORS

The mandate of the Board is to supervise the management of the business and affairs of the Corporation and to act with a view to the best interests of the Corporation. The Board's major responsibilities are:

- To ensure that the Corporation adopts a strategic planning process;
- To review and monitor the Corporation's principal business risks, as identified by management, and the system to manage such risks;
- To appoint, develop and monitor senior management and ensure that management provides for succession planning;
- To ensure that the Corporation has a policy in place to enable it to communicate effectively with shareholders, other stakeholders and the public generally; and
- To ensure the integrity of the Corporation's internal control and management information systems.

There were five meetings of the Board in the fiscal year ended December 31, 2004. The Board has had one meeting in 2005. It is the current practice that at least one directors' meeting each year be held at a location other than the head office, with a view to giving the directors a broader exposure to the Corporation's business and operations. At these meetings, the directors are provided with an opportunity to meet with senior management within the local and regional area.

COMMITTEES OF THE BOARD

Throughout 2004, there were two committees of the Board including the Audit Committee and the Corporate Governance and Compensation Committee.

Audit Committee

The Audit Committee is comprised of four independent and unrelated directors. In summary, the Committee approves, monitors, evaluates, advises, or makes recommendations on matters affecting the external audit and the financial reporting and accounting control policies and practices of the Corporation, including:

- Review, and recommend to the Board for approval, the annual audited financial statements and continuous disclosure documents, including:

  a) The financial content of the annual report;
  b) The annual management information circular and proxy materials;
  c) The annual information form; and
  d) The management discussion and analysis section of the annual report.

- Review and authorize the release of the quarterly unaudited financial statements including management's discussion and analysis, the quarterly interim report to shareholders and the quarterly press release on earnings of the Corporation;

- Review, and recommend to the Board for approval, all financial statements, reports of a financial nature, and the financial content of prospectuses or any other reports which require approval by the Board prior to submission thereof to any regulatory authority;

- Review and assess, in conjunction with management and the external auditor:

  a) The appropriateness of accounting policies and financial reporting practices used by the Corporation, including alternative treatments that are available for consideration;
  b) Any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Corporation;
  c) Any new or pending developments in accounting and reporting standards that may affect or impact on the Corporation; and
  d) The key estimates and judgments of management that may be material to the financial reporting of the Corporation.

- Assess the performance and consider the annual appointment of the external auditor for recommendation to the Board for ultimate recommendation for appointment by the shareholders;

- Review, approve and execute the annual engagement letter with the external auditor;

- Approve, before the fact, the engagement of the external auditor for all non-audit services and the fees for such services, and consider the impact on the independence of the external audit work of fees for such non-audit services;

- Review all fees paid to the external auditor for audit services and, if appropriate, recommend their approval to the Board;

- Review with the external auditor the results of the annual audit examination;

- Establish procedures for:

  a) the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and
  b) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

- Review and approve the issuer's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the issuer.

The Audit Committee met six times in 2004. In addition to formal meetings, the members of the Audit Committee meet informally as required, either in person or by telephone. The Chairman of the Audit Committee provides regular reports at the Corporation's Board meetings.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee is comprised entirely of independent unrelated directors. The Committee makes recommendations to the full Board on, among other things:

Corporate Governance Matters

- Developments in the area of corporate governance generally;
- Composition and size of the Board;
- Appropriate candidates for nomination to the Board;
- Providing an orientation and education program for new directors;
- Evaluating the performance of the Board and its committees; and
- Considering and approving any requests by an individual director to engage outside experts at the expense of the Corporation.

Compensation Matters

- Compensation policy which reflects the rationale for each element of executive pay, including the link between compensation and performance and the level of competitiveness of the total compensation package;
- Administration of the share option plan on behalf of the Corporation;
- Executive management compensation, including bonuses, stock options, pensions, and benefits;
- Compensation for the Chief Executive Officer;
- Senior management performance reviews; and
- The Corporation's succession plans for executive management positions.

The Corporate Governance and Compensation Committee met twice in 2004. In addition to formal meetings, the members of the Corporate Governance and Compensation Committee meet informally as required, either in person or by telephone. The Chairman of the Corporate Governance and Compensation Committee provides regular reports at the Corporation's Board meetings.

BOARD OF DIRECTORS (non-management)

William D. Grace

Ross A. Grieve

W. Garry Holmes

Lou D. Hyndman

Andrew J. Melton

Bruce Saville

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31 ($000's)	2004	2003
Revenue	88,339	80,035
Cost of sales	(52,107)	(46,554)
	36,232	33,481
Interest income	1,586	2,389
Interest expense (Note 16)	(2,463)	(2,363)
General and administrative expenses	(7,032)	(7,584)
Gain on sale of investment properties	-	1,578
Earnings before income taxes	28,323	27,501
Income tax (expense) recovery (Note 11)		
Current	(8,774)	(11,475)
Future	(112)	2,380
	(8,886)	(9,095)
Net earnings for the year	19,437	18,406
Retained earnings, beginning of the year	133,211	118,187
Dividends paid	(3,690)	(3,382)
Cost of common shares purchased in excess of stated capital	(2,903)	-
Retained earnings, end of the year	146,055	133,211
Basic earnings per share (Note 14)	6.30	6.00
Diluted earnings per share (Note 14)	6.15	5.86

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31 ($000's)	2004	2003
ASSETS		
Cash and cash equivalents	6,151	5,080
Accounts receivable	2,908	2,336
Income taxes receivable	3,118	-
Agreements receivable (Note 3)	43,508	46,904
Land inventory (Note 4)	163,694	141,004
Investment properties (Note 5)	54,930	50,396
Capital assets (Note 6)	291	321
Deferred costs and other assets (Note 7)	7,748	5,661
	282,348	251,702
LIABILITIES		
Bank operating loan (Note 8)	10,167	1,642
Accounts payable and accrued liabilities	12,107	9,839
Provision for land development costs	18,962	15,072
Debt on land inventory (Note 9)	40,311	35,885
Debt on investment properties (Note 10)	35,956	37,335
Future income taxes (Note 11)	11,304	11,192
	128,807	110,965
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	8,024	7,523
Contributed surplus (Note 12 (f))	10	1
Retained earnings	146,055	133,211
Currency translation adjustment (Note 13)	(548)	2
	153,541	140,737
	282,348	251,702

SIGNED ON BEHALF OF THE BOARD

PER: T.C. Melton ______ Director

T.C. Melton

PER: Ralph Young ______ Director

R.B. Young

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 ($000's)	2004	2003
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings for the year	19,437	18,406
Non cash items:		
Amortization of investment properties	1,389	981
Amortization of capital assets	97	110
Stock-based compensation expense (Note 12 (f))	9	1
Loss (gain) on sale of investment properties	-	(1,578)
Future income taxes	112	(2,380)
	21,044	15,540
Agreements receivable	3,396	9,868
Development activities (Note 21)	3,400	173
Operating assets and liabilities (Note 21)	(3,509)	(7,016)
	24,331	18,565
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of land inventory (Note 4)	(10,354)	(12,470)
Proceeds from sale of investment properties	-	2,450
Investment property additions	(5,923)	(7,747)
Capital asset additions	(67)	(134)
	(16,344)	(17,901)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Bank operating loan	8,525	803
Repayment of debt on land inventory (Note 9)	(7,970)	(6,852)
Proceeds from investment property financing	-	11,017
Repayment of debt on investment properties	(1,379)	(4,852)
Dividends paid	(3,690)	(3,382)
Share capital issued (Note 12 (a))	661	577
Common shares purchased (Note 12 (a))	(3,063)	-
	(6,916)	(2,689)
Increase (decrease) in cash and cash equivalents during the year	1,071	(2,025)
Cash and cash equivalents, beginning of the year	5,080	7,105
Cash and cash equivalents, end of the year	6,151	5,080

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Significant areas requiring the use of management estimates relate to the determination of the provision for land development costs and potential impairment of assets. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

A) Basis of consolidation

These consolidated financial statements include:

(i) The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies (the "Company"):

Melcor Developments Arizona, Inc.
Melcor Lakeside Inc.
Stanley Investments Inc.

(ii) Investments in thirteen joint ventures (2003 - twelve) are accounted for using the proportionate consolidation method.

B) Recognition of revenue

Revenue is recognized in each business segment as follows:

(i) Community Development - revenue from the sale of land is recognized when a minimum 15% of the sale price has been received, the sale is unconditional and possession has been granted.

(ii) Investment Property - rental revenue from properties is recognized over the term of the related lease agreement as amounts become due.

(iii) Recreation Property - revenue from golf courses is recognized as services are provided.

C) Capitalization of costs

(i) Community Development - The Company capitalizes all direct costs relating to land inventory including carrying costs such as property taxes, interest on debt specifically related to the project and other costs net of any rental income that may be received. Where the net realizable value of any property in land inventory does not exceed its capitalized carrying value, all additional carrying costs relating to the property is charged to current operations and is not capitalized. General administrative overhead expenses are not allocated and capitalized to properties.

(ii) Property Development and Investment Properties - For acquired and constructed properties, building revenues and operating costs are capitalized as part of the cost of the property until the property is 75% occupied by tenants, subject to a reasonable period dependent on the nature of the property.

D) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term securities with maturity dates of less than three months from the date they were acquired. These items are carried at cost or amortized cost as appropriate.

E) Land inventory

Land inventory is recorded at the lower of cost and net realizable value and includes undeveloped land costs, capitalized carrying costs related to holding the land and development costs to build infrastructure. The estimated unexpended portion of costs to complete building the infrastructure, which are classified as "Provision for land development costs", are recorded as a liability at the time that a lot sale is recorded. Whenever this liability is known to be materially different from the actual costs incurred, an adjustment is made to the liability with a corresponding adjustment to cost of sales.

The cost of land and carrying costs are allocated to each phase of development on a prorated acreage basis at the time a plan is registered with a municipality. The cost of sale of a lot is allocated on the basis of the estimated total cost of the project prorated by anticipated selling price of the lot over the anticipated selling price of the entire project at the date of plan registration.

F) Investment properties

Commercial properties and the manufactured home community are amortized using the straight line method based upon an estimated useful life of 40 to 60 years. Golf courses and related assets are amortized using the straight line method based upon their estimated useful lives at rates from 4% to 30%.

G) Capital assets

Capital assets are amortized using the declining balance method of amortization, over their estimated useful lives, at rates from 10% to 30%.

H) Deferred costs and other assets

Deferred costs and other assets includes prepaid expenses, sundry assets, tenant leasing costs and those major repairs which are recoverable from tenants. These assets are amortized on a straight line basis over the estimated useful lives or lease period and are recorded at the lower of cost less accumulated amortization and net realizable value.

I) Impairment of long lived assets

Long lived assets include investment properties, capital assets and tenant leasing costs. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. The impairment recognized, is measured as the amount by which the carrying value exceeds its fair value.

J) Income taxes

Future income taxes are recognized at substantively enacted tax rates for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantial enactment.

K) Foreign currency translation

The Company's foreign operation is of a self-sustaining nature. Assets and liabilities of the foreign operation are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Gains or losses on translation are shown as a separate component of shareholders' equity.

L) Per share amounts

The Company uses the treasury stock method for calculation of diluted earnings per share under which deemed proceeds from the exercise of options are considered to be used to reacquire common shares at an average share price.

M) Stock option plan

Effective January 1, 2003, the Company adopted the fair value based method of accounting for stock options issued to employees. Under this method, the estimated fair value of options on the date of grant is recognized as compensation expense over the period in which the employee services are rendered. Prior to January 1, 2003, the Company recorded compensation expense if the exercise price of each option was less than the market value at the date immediately preceding the date of grant. The new policy was adopted on October 1, 2003 but has been applied effective January 1, 2003, consistent with the transitional provisions of the amended CICA Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments. There were no options issued by the Company between January 1, 2003 and October 1, 2003. This change in accounting policy has been applied on a prospective basis and has resulted in the recognition of $9,000 of compensation expense in the current year (2003 - $1,000).

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Generally Accepted Accounting Principles ("GAAP"):

A new standard is in effect at January 1, 2004, for identifying appropriate sources of generally accepted accounting principles, and the doctrines that constitute generally accepted accounting principles. Effective with the adoption of this standard, the Company has changed its method of amortization on all commercial properties and the manufactured home community, from the sinking fund method to the straight line method on a prospective basis. This change resulted in an effective annual amortization expense of approximately $644,000 more than would have been recognized under the sinking fund method. See "Change in Estimates" below.

Change In Estimates:

Effective with the adoption of the straight line method of amortization for certain investment property assets, the Company reviewed the useful lives of its investment properties. The Company determined that it's investment property buildings have a useful life of 40 to 60 years. This change in estimate has been accounted for prospectively and resulted in an effective annual amortization expense of approximately $389,000 less than would have been recognized under previous estimates of useful lives.

Impairment of Long-Lived Assets:

A new standard is in effect for recognizing, measuring and disclosing impairment of long-lived assets held for use. The standard requires that an impairment loss be recognized in an amount equal to the difference between carrying value and fair value when the carrying value of a long-lived asset exceeds the undiscounted future cash flows. A recoverability test will be performed on asset groups as events or circumstances change in order to determine whether or not the assets are impaired. The impairment is measured as the amount by which the carrying value exceeds its fair value. The Company has adopted the standard for the fiscal year commencing January 1, 2004 and after having completed a review of its assets, has concluded that there is no impairment of long-lived assets.

Asset Retirement Obligations:

A new standard is in effect for fiscal years beginning on or after January 1, 2004, for recognizing, measuring and disclosing liabilities for asset retirement obligations and the associated asset retirement costs. The Company adopted this policy on January 1, 2004 and concluded that adoption of this standard does not result in the recognition of an asset retirement obligation.

3. AGREEMENTS RECEIVABLE

Agreements receivable are due within one year except for $10,700,000 (2003 - $7,800,000 due in 2005) which is due in 2006. Subsequent to the interest adjustment date, which provides an interest relief period of four months to qualifying registered builders, these receivables earn interest at prime plus one percent (5.25% at December 31, 2004 and 5.5% at December 31, 2003) and are secured by the specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region.

4. LAND INVENTORY

($000's)	2004	2003
Undeveloped land and carrying costs	112,230	92,960
Pre-development costs	10,779	13,055
Developed land inventory cost	40,685	34,989
	163,694	141,004

During the year the Company purchased land in the amount of $22,749,000 (2003 - $26,066,000) and received vendor financing in the amount of $12,395,000 (2003 - $13,596,000).

5. INVESTMENT PROPERTIES

($000's)			2004			2003
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Commercial properties	53,663	(6,826)	46,837	47,495	(4,958)	42,537
Manufactured home community and related assets	3,493	(417)	3,076	3,404	(352)	3,052
Properties under development	2,172	-	2,172	1,966	-	1,966
Golf courses and related assets	5,892	(3,047)	2,845	5,647	(2,806)	2,841
	65,220	(10,290)	54,930	58,512	(8,116)	50,396

6. CAPITAL ASSETS

($000's)			2004			2003
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computerware and furniture	883	(601)	282	816	(507)	309
Other buildings and equipment	31	(22)	9	31	(19)	12
	914	(623)	291	847	(526)	321

7. DEFERRED COSTS AND OTHER ASSETS

($000's)	2004	2003
Tenant leasing costs	4,687	3,875
Major repairs	1,808	1,356
Sundry prepaids	988	165
Sundry inventory	265	265
	7,748	5,661

The Company paid tenant leasing costs of $1,696,000 during the year (2003 - $1,049,000) and amortized $884,000 (2003 - $713,000) of tenant leasing cost against respective lease revenues.

During the year the Company incurred $668,000 in major repairs recoverable from tenants (2003 - $782,000) and amortized $215,000 (2003 - $162,000) into building operating costs.

8. BANK OPERATING LOAN

The Company has an available credit facility with approved loan limits of $29,650,000 (2003 - $31,000,000) with a major chartered bank. The amount currently used is $10,167,000 (2003 - $1,642,000). The Company has pledged agreements receivable, specific lot inventory and a general security agreement as collateral for it's credit facility. This facility may be terminated by the bank upon one year's notice. Interest is paid monthly at rates varying from prime plus 0.5% to prime plus 1.0% (4.75% - 5.25% at December 31, 2004 and 5.0% - 5.5% at December 31, 2003).

9. DEBT ON LAND INVENTORY

($000's)	2004	2003
Agreements payable with interest at the following rates:		
Fixed rates of 4.0% - 7.0%	32,949	26,005
Variable rates of prime plus 1.0% to prime plus 1.25%		
(5.25% - 5.50% at Dec. 31/04 and 5.5% - 5.75% at Dec. 31/03)	7,362	9,880
	40,311	35,885

During the year, the Company received vendor financing on land purchases of $12,395,000 (2003 - $13,596,000) and made debt repayments of $7,970,000 (2003 - $6,852,000).

Specific land inventory with a book value of $80,565,000 (2003 - $67,003,000) has been pledged as collateral for the above debt. The weighted average interest rate of agreements payable, based on year end balances, is 4.8% (2003 - 5.1%).

The agreements mature in 2005 to 2012 and the minimum principal payments due within each of the next five years are as follows: 2005 - $10,546,000; 2006 - $7,600,000; 2007 - $8,154,000; 2008 - $6,784,000; 2009 - $2,740,000.

10. DEBT ON INVESTMENT PROPERTIES

($000's)	2004	2003
Mortgages amortized over 20 years at rates varying from prime plus 1.0% to		
prime plus 1.25% (5.25% - 5.5% at Dec. 31/04 and 5.5% - 5.75% at Dec. 31/03)	2,400	2,635
Mortgages amortized over 20 to 25 years at fixed rates varying from 5.33% - 7.82%		
(2003 - 5.33% - 7.82%)	33,556	34,700
	35,956	37,335

Specific real estate with a net book value of $41,301,000 (2003 - $41,169,000) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average interest rate for mortgages, based on year end balances, is 6.4% (2003 - 6.5%).

Principal payments due within each of the next five years, assuming renewal at similar terms are: 2005 - $1,469,000; 2006 - $1,563,000; 2007 - $1,667,000; 2008 - $1,649,000; 2009 - $1,547,000.

Principal payments due within each of the next five years assuming no renewal are: 2005 - $4,679,000; 2006 - $9,540,000; 2007 - $857,000; 2008 - $8,650,000; 2009 - $687,000.

11. FUTURE INCOME TAXES

($000's)	2004	2003
Investment property book values in excess of tax values	3,197	3,507
Reserve on amounts due in subsequent years	5,036	5,021
Interest and other costs deducted for tax purposes	1,150	911
Tenant leasing costs	1,921	1,655
Other	-	98
	11,304	11,192

The reversal of future income taxes is dependent upon the timing of development and sale of the related assets and on the timing of the receipt of cash relating to agreements receivable. Income taxes paid during the year were $12,287,000 (2003 - $13,393,000). Income tax expense is calculated as follows:

($000's)	2004	2003
Income tax at statutory rate (2004 - 33.87%; 2003 - 36.74%)	9,593	10,104
Increase (decrease) resulting from:		
Benefit recorded for substantively enacted future tax rate reductions	(715)	(766)
Taxable capital gains	-	(290)
Non deductible expenses and other	8	47
Income tax expense	8,886	9,095

12. SHARE CAPITAL

(a) Common Shares

	2004		2003	
	NUMBER OF SHARES ISSUED	AMOUNT ($000's)	NUMBER OF SHARES ISSUED	AMOUNT ($000's)
Common shares, beginning of the year	3,082,803	7,523	3,052,113	6,946
Share options exercised	33,700	661	30,690	577
Shares purchased and cancelled	(62,000)	(160)	-	-
Common shares, end of the year	3,054,503	8,024	3,082,803	7,523

Authorized:

Common shares	10,000,000
First Preferred Shares, non-voting, issued in series	5,000,000

During the year, the Company purchased 62,000 common shares pursuant to the Normal Course Issuer Bid Circular at an average price of $49.39 per share for total consideration of $3,062,280. In the prior year, the Company did not purchase common shares pursuant to the Normal Course Issuer Bid Circular. At December 31, 2004 the current bid allowed the Company to purchase an additional 93,000 shares prior to the expiry of the bid on September 15, 2005. Subsequent to the year end, the Company did purchase an additional 62,000 common shares at an average price of $53.00 per share for total consideration of $3,286,000.

(b) Stock Option Plan

On September 28, 2000 the Company's Board of Directors approved a stock option plan ("the Plan"). Under the Plan, the Company may grant options to full-time salaried employees and designated contractors after one year of service. The plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the option. The options vest at 20% per year and expire seven years from the date of issuance and may be exercised into common shares on a one-for-one basis.

(c) Options Available for Granting

	2004	2003
Options available, beginning of the year	33,200	39,900
Options granted	(1,200)	(9,300)
Options forfeited	1,040	2,600
Options available, end of the year	33,040	33,200

The Company has 215,200 common shares reserved for issuance under the plan (2003 - 248,900).

(d) Options Outstanding Under the Plan

	2004		2003	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE OPTION PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE OPTION PRICE
Options outstanding, beginning of the year	215,700	27.13	239,690	25.72
Options granted	1,200	46.24	9,300	39.30
Options exercised	(33,700)	19.61	(30,690)	18.80
Options forfeited	(1,040)	18.73	(2,600)	38.58
Options outstanding, end of the year	182,160	28.70	215,700	27.13

(e) Options Outstanding and Exercisable Under the Plan

OPTION EXPIRY DATE	OUTSTANDING OPTIONS (#)	OPTION PRICE PER SHARE ($)	EXERCISABLE AT DEC. 31, 2004
September 28, 2007	73,960	18.73	43,880
July 26, 2008	5,200	24.28	1,400
July 25, 2009	9,400	38.58	3,520
October 25, 2009	80,000	35.30	32,000
December 12, 2009	3,100	34.95	1,240
October 28, 2010	9,300	39.30	1,860
July 27, 2011	1,200	46.24	-
	182,160		83,900

(f) Stock-Based Compensation Expense

The following weighted-average assumptions were used in the Black-Scholes calculations for stock options granted:

	2004	2003
Annualized volatility	16%	16%
Risk-free interest rate	3.77%	3.50%
Annual dividend rate	3.35%	3.56%
Expected life of options in years	5	5

The fair value of options granted during the year was $46.24 per option (2003 - $39.40).

Application of the fair value method in 2004, resulted in a $9,000 (2003 - $1,000) charge to stock-based compensation expense with a corresponding credit to contributed surplus.

13. CURRENCY TRANSLATION ADJUSTMENT

($000's)	2004	2003
Cumulative unrealized gain at the beginning of the year	2	1,378
Unrealized gain/ (loss) for the year on the translation of net assets	(550)	(1,376)
	(548)	2

This adjustment represents the net unrealized foreign currency translation gain (loss) on the Company's net investment in its self-sustaining foreign operation.

14. PER SHARE AMOUNTS

(#)	2004	2003
Basic weighted average common shares outstanding during the year	3,087,495	3,069,055
Dilutive effect of options	74,395	70,089
Diluted weighted average common shares	3,161,890	3,139,144

Basic net earnings per share is calculated by dividing the Company's net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated to give dilutive effect to share options.

15. FINANCIAL GUARANTEES

In the normal course of operations, the Company issues letters of credit as security for the completion of obligations pursuant to development agreements signed with municipalities. At December 31, 2004 the Company had $15,886,000 (December 31, 2003 - $17,800,000) in letters of credit outstanding and recorded a net liability of $18,962,000 (December 31, 2003 - $15,072,000) in provision for land development costs in respect of these development agreements.

Normally, obligations secured by the letters of credit diminish as the developments proceed, through a series of staged reductions over a period of years (average of three to four) and are ultimately extinguished when the municipality has issued final completion certificates.

The Company enters into joint venture agreements and, in doing so, may take on risk beyond its proportionate interest in the joint venture. These situations generally arise where preferred financing terms can be arranged on the condition that the strength of the Company's covenant will backstop that of the other joint venture participant(s) who also provide similar guarantees. The Company will have to perform on its guarantee only if a joint venture participant was in default of their guarantee. At December 31, 2004 the Company had guaranteed $10,563,000 (2003 - $9,025,000) in loans and $3,580,000 (2003 - $2,622,000) in letters of credit in support of other participant's interests.

The loan guarantees include those which are ongoing, as they relate to the relevant lines of credit, and those which have staged reductions as they relate to the financing of specific assets or projects such as infrastructure loans, short-term land loans or mortgages.

To mitigate the possibility of financial loss, Melcor is diligent in its selection of joint venture participants. As well, Melcor has remedies available within the joint venture agreement, to address the application of the guarantees. In certain instances there are reciprocal guarantees amongst joint venture participants.

16. INTEREST EXPENSE

($000's)	2004	2003
Interest on bank operating loan	**124**	**145**
Interest on debt - land inventory	**1,964**	**1,804**
Interest on debt - investment properties	**2,321**	**2,190**
	4,409	**4,139**
Less interest on land inventory debt capitalized	**(1,946)**	**(1,776)**
	2,463	**2,363**

Cumulative interest capitalized at the end of the year is $6,990,000 (2003 - $5,733,000). Interest paid during the year was $4,186,000 (2003 - $4,057,000).

17. INTEREST RATE RISK

The Company's debt consists of loans that are subject to interest rate fluctuations. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $199,000 (2003 - $142,000) based upon year end debt balances. This amount is partially offset by the interest earned on agreements receivable which is also subject to interest rate fluctuations.

18. JOINT VENTURES

($000's)	ASSETS	LIABILITIES	REVENUE	EARNINGS	CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES
2004	**85,600**	**44,968**	**34,117**	**11,133**	**4,897**	**(2,833)**	**2,689**
2003	**57,862**	**26,130**	**26,782**	**8,947**	**5,304**	**(3,304)**	**(146)**

The above table includes the Company's proportionate share of the assets, liabilities, revenue, earnings and cash flow information of thirteen joint ventures (2003 - twelve) that are proportionately consolidated in these financial statements. The company's proportionate interest of these joint ventures ranges from 33% - 75% ownership.

19. SEGMENTED INFORMATION

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses. The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties. Any inter-segment sales and the unrealized profits therefrom, have been eliminated.

Community Development

This division is responsible for purchasing and developing land to be sold as residential, industrial and commercial lots.

Property Development

This division develops income properties which, when constructed and at least 75% leased, are transferred to the Investment Property Division which will hold and manage the asset. The transfer is at the Company's estimate of fair value and is recorded as revenue in the Property Development Division.

Investment Property

This division owns 23 properties, which it holds to earn rental income.

Recreation Property

This division owns and manages two 18-hole golf course operations (one of which is 60% owned).

	FOR THE YEAR ENDED DECEMBER 31, 2004			FOR THE YEAR ENDED DECEMBER 31, 2003		
RENENUE ($000's)	Segment Revenue	Inter-segment Eliminations	External Revenue	Segment Revenue	Inter-segment Eliminations	External Revenue
Community development	75,359	(1,518)	73,841	72,556	(5,256)	67,300
Property development	4,058	(4,058)	-	2,692	(2,692)	-
Investment property	12,088	(207)	11,881	10,235	(298)	9,937
Recreation property	2,756	(139)	2,617	2,951	(153)	2,798
	94,261	(5,922)	88,339	88,434	(8,399)	80,035

EARNINGS ($000's)	Segment Earnings	Inter-segment Eliminations	External Earnings	Segment Earnings	Inter-segment Eliminations	External Earnings
Community development	29,589	293	29,882	28,995	(1,552)	27,443
Property development	213	(473)	(260)	161	(392)	(231)
Investment property	1,367	(126)	1,241	2,286	(215)	2,071
Recreation property	468	(115)	353	626	(147)	479
	31,637	(421)	31,216	32,068	(2,306)	29,762
NON-ALLOCATED ITEMS:						
Interest income			30			242
General and administrative expenses			(2,923)			(2,503)
Earnings before income tax expense			28,323			27,501
Income tax expense			(8,886)			(9,095)
Net earnings for the year			19,437			18,406

INTEREST ($000's)	Per Segment	Inter-segment Eliminations	Per Financial Statement	Per Segment	Inter-segment Eliminations	Per Financial Statement
INTEREST INCOME:						
Community development	1,545	-	1,545	2,130	-	2,130
Property development	-	-	-	-	-	-
Investment property	11	-	11	17	-	17
Recreation property	-	-	-	-	-	-
Non-allocated	114	(84)	30	304	(62)	242
	1,670	(84)	1,586	2,451	(62)	2,389
INTEREST EXPENSE:						
Community development	(225)	84	(141)	(234)	62	(172)
Property development	-	-	-	-	-	-
Investment property	(2,234)	-	(2,234)	(2,083)	-	(2,083)
Recreation property	(88)	-	(88)	(108)	-	(108)
	(2,547)	84	(2,463)	(2,425)	62	(2,363)

The community development segment includes the operations of its wholly owned subsidiary in the United States. A summary of its activities are as follows:

($000's)	2004	2003
External revenue	4,006	244
Earnings	920	25
Interest Income	316	181
Assets	7,137	6,940
Equity	7,091	6,721

Other Segmented Information

($000's)	2004	2003	2004	2003	2004	2003
	Amortization		Capital Expenditures		Total Carrying Value of Identifiable Assets	
Community development	3	3	-	-	209,321	189,692
Property development	-	-	2,682	1,879	3,776	3,538
Investment property	1,148	715	2,996	5,135	56,085	49,795
Recreation property	241	267	273	323	3,006	2,998
Common	94	106	39	133	10,160	5,679
	1,486	1,091	5,990	7,470	282,348	251,702

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consists of cash and cash equivalents, accounts receivable, income taxes receivable, agreements receivable, bank operating loan, accounts payable and accrued liabilities, debt on land inventory, and debt on investment properties. The Company believes that the fair value of financial instruments approximates their carrying values. The fair value of cash and cash equivalents, accounts receivable, income taxes receivable, bank operating loan, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

The fair value of agreements receivable are estimated based on the interest bearing nature of these instruments which are at rates consistent with market rates for debt instruments with similar terms to maturity. The fair value of debt on land inventory and debt on investment properties are estimated based on quoted market rates for similar instruments with similar terms.

21. DEFINITIONS FOR STATEMENTS OF CASH FLOWS

Development activities is defined as the net change of land inventory and the provision for land development costs and excludes the purchase of land inventory and the amount related to the application of the current rate method of translation of the US subsidiary, which is a decrease of $550,000 (2003 - a decrease of $1,012,000). Purchase of land inventory is the cost of land net of vendor financing received (see Note 4 - Land Inventory).

Operating assets and liabilities is defined as the net change of accounts receivable, income taxes receivable, deferred costs and other assets, accounts payable and accrued liabilities and excludes the amount related to the application of the current rate method of translation of the US subsidiary, which was a decrease of $41,000 in 2003.

22. COMPARATIVE FIGURES

During the year the Company changed its classification of certain development costs which affected the amounts reported for land inventory and provision for land development costs. The comparative figures have been restated to conform to the new presentation. The total estimated carrying, servicing and development costs are recorded as a liability at the time that lots are sold. These unexpended costs are shown as "provision for land development costs" on the balance sheet.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Annual Report, including the consolidated financial statements, is the responsibility of the management of the Company. The financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants in all material respects. Financial information contained elsewhere in this Report is consistent with the information contained in the financial statements.

Management maintains a system of internal controls which provides reasonable assurance that the assets of the Company, its subsidiaries and joint ventures are safeguarded and which facilitates the preparation of relevant, timely and reliable financial information which reflects, where necessary, management's best estimates and judgements based on informed knowledge of the facts.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the consolidated financial statements. The Board has appointed an Audit Committee comprising four unrelated and independent directors to approve, monitor, evaluate, advise or make recommendations on matters affecting the external audit, the financial reporting and the accounting controls, policies and practices of the Company under its terms of reference.

The Audit Committee meets at least four times per year with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities. The consolidated financial statements and the Management Discussion and Analysis have been reviewed by the Audit Committee and approved by the Board of Directors of Melcor Developments Ltd.

PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders, have examined the consolidated financial statements and have read Management's Discussion and Analysis. Their report as auditors is set forth below.

AUDITORS' REPORT

To the Shareholders of Melcor Developments Ltd.

We have audited the consolidated balance sheets of Melcor Developments Ltd. as at December 31, 2004 and 2003 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta
February 18, 2005

FIVE YEAR REVIEW

BALANCE SHEET ($000s)	2004	2003	2002	2001	2000
ASSETS					
Cash and cash equivalents	6,151	5,080	7,105	1,325	1,181
Accounts receivable	2,908	2,336	2,914	2,912	1,980
Income taxes receivable	3,118	-	-	-	-
Agreements receivable	43,508	46,904	57,094	43,704	34,927
Land inventory	163,694	141,004	116,904	88,655	92,036
Investment properties	54,930	50,396	42,412	37,210	26,098
Capital assets	291	321	298	298	292
Deferred costs and other assets	7,748	5,661	5,068	3,114	2,272
	282,348	251,702	231,795	177,218	158,786
LIABILITIES AND SHAREHOLDERS' EQUITY					
Bank operating loan	10,167	1,642	839	11,929	14,088
Accounts payable and accrued liabilities	12,107	9,839	16,799	11,315	7,658
Provision for land development costs	18,962	15,072	13,763	6,371	10,587
Debt on land inventory	40,311	35,885	29,141	12,776	10,545
Debt on investment properties	35,956	37,335	31,170	16,599	12,181
Future income taxes	11,304	11,192	13,572	11,510	10,842
Share capital	8,024	7,523	6,946	6,705	6,571
Retained earnings	145,517	133,214	119,565	100,013	86,314
	282,348	251,702	231,795	177,218	158,786

STATEMENT OF EARNINGS ($000s)	2004	2003	2002	2001	2000
Revenue	88,339	80,035	110,565	82,607	61,221
Cost of sales	(52,107)	(46,554)	(67,630)	(50,612)	(37,196)
	36,232	33,481	42,935	31,995	24,025
Interest income	1,586	2,389	1,716	1,416	1,149
Interest expense	(2,463)	(2,363)	(1,530)	(1,765)	(1,538)
General and administrative expenses	(7,032)	(7,584)	(8,062)	(6,838)	(5,822)
Gain on sale of investment properties	-	1,578	1,004	34	479
Earnings before income tax expense	28,323	27,501	36,063	24,842	18,293
Income tax expense	(8,886)	(9,095)	(12,974)	(8,871)	(7,663)
Net earnings for the year	19,437	18,406	23,089	15,971	10,630

STATISTICAL ($)		2004	2003	2002	2001	2000
Earnings per share	- basic	6.30	6.00	7.58	5.26	3.48
Earnings per share	- diluted	6.15	5.86	7.41	5.21	3.48
Number of shares	- year end (000's)	3,055	3,083	3,052	3,046	3,039
Shareholders equity	- book value per share	50.27	45.65	41.45	35.04	30.57
	- total ($000s)	153,541	140,737	126,511	106,718	92,885
Dividends	- per share	1.20	1.10	1.00	.90	.80
Share price range	- per share	44.50-55.00	37.00-48.00	26.50-42.50	20.00-28.50	17.00-20.25

CORPORATE INFORMATION

CORPORATE OFFICE

900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931
info@melcor.ca
www.melcor.ca

DIRECTORS

William D. Grace (1) (2)
Corporate Director
Edmonton, Alberta

W. Garry Holmes (1)
Corporate Director
Edmonton, Alberta

Lou D. Hyndman (1) (2)
Partner
Field LLP,
Barristers & Solicitors
Edmonton, Alberta

Andrew J. Melton
Partner
Avison Young Commercial Real Estate
Calgary, Alberta

Timothy C. Melton
Executive Chairman
Melcor Developments Ltd.
Edmonton, Alberta

Bruce Saville (2)
President
Saville Interest Group Inc.
Edmonton, Alberta

Ross A. Grieve (1) (2)
President & CEO
PCL Construction Group Inc.
Edmonton, Alberta

Ralph B. Young
President & Chief
Executive Officer
Melcor Developments Ltd.
Edmonton, Alberta

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(1) Audit Committee
(2) Corporate Governance & Compensation Committee
(3) Management Committee

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OFFICERS

Timothy C. Melton (3)
Executive Chairman

Ralph B. Young (3)
President & Chief Executive Officer

Michael D. Shabada (3)
Vice-President, Finance and
Chief Financial Officer

Brett A. Halford (3)
Vice-President, Administration

W. Peter Daly (3)
Vice-President,
Land Development Division


Brett A. Halford


W. Peter Daly

COMMUNITY DEVELOPMENT

Edmonton Region

900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931

Randy Sieben
Vice-President and Regional Manager

Calgary Region

204, 400 Crowfoot Crescent N.W.
Calgary, Alberta T3G 5H6
(403) 283-3556

Kent Hystad
Vice-President and Regional Manager

Dave Poppitt
Vice-President, Special Projects

Red Deer Region

502 Parkland Square
Red Deer, Alberta T4N 6M4
(403) 343-0817

Guy Pelletier
Vice-President and Regional Manager

Lethbridge Region

1425-33 Street N
Lethbridge, Alberta T1H 5H2
(403) 328-0475

Neil Johnson
Senior Regional Manager

PROPERTY DEVELOPMENT

900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931

Brian Baker
Division Manager

INVESTMENT PROPERTY

Commercial Property

900, 10310 Jasper Avenue
Edmonton, Alberta T5J 1Y8
(780) 423-6931

Darin Rayburn
Senior Division Manager

Watergrove Manufactured Home Community

400, 99 Arbour Lake Road NW
Calgary, Alberta T3G 4E4
(403) 547-0200

Doug Alton
Manager

GOLF COURSES

The Links At Spruce Grove

P.O. Box 4268
Spruce Grove, Alberta T7K 3B4
(780) 962-4653

Pierre Beauchemin
Pro / Manager

Glen Andersen
Superintendent

Lewis Estates Golf Course

8700 - 207 Street
Edmonton, Alberta T5T 6A4
(780) 489-1369

Jerry Linquist
Pro / Manager

Tom Van Tetering
Superintendent

FINANCE AND ADMINISTRATION

Karen Albarda
Controller

OTHER INFORMATION

Share Transfer Agent: CIBC Mellon Trust Company, Calgary & Toronto
Stock Exchange Listing: The Toronto Stock Exchange (Stock symbol: MRD)
Auditors: PricewaterhouseCoopers LLP, Chartered Accountants, Edmonton

MELCOR 2004 PERFORMANCE MEASURES (SELECTED)

	2000	% change	2001	% change	2002	% change	2003	% change	2004
ASSETS ($000)	158,786		177,218		231,795		251,806		282,348
Annual increase		11.6%		30.8%		8.6%		12.1%	
SHAREHOLDERS' EQUITY ($000)	92,885		106,718		126,511		140,737		153,541
Annual increase		14.9%		18.5%		11.2%		9.1%	
REVENUE ($000)	61,221		82,607		110,565		80,035		88,339
Annual increase		34.9%		33.8%		-27.6%		10.4%	
GROSS MARGIN	39%		39%		39%		42%		41%
Five year average = 40%									
ADMIN. EXPENSES / REVENUE	8.3%		7.3%		6.5%		8.1%		6.3%
Five year average = 7.2%		-12.3%		-11.0%		25.3%		-22.6%	
EARNINGS (EBT) ($000)	18,293		24,842		36,063		27,501		28,323
Annual increase		36%		45%		-24%		3%	
BASIC EARNINGS PER SHARE ($)	3.50		5.26		7.58		6.00		6.30
Annual increase		50%		44%		-21%		5%	
AVERAGE SHARE PRICE ($)	18.09		24.79		36.60		40.19		48.50
Annual increase		37%		48%		10%		21%	
DIVIDEND ($)	0.80		0.90		1.00		1.10		1.20
Annual increase		12.5%		11.1%		10.0%		9.1%	
DIVIDEND YIELD	4.4%		3.6%		2.7%		2.7%		2.5%
Five year average = 3.0%									
BOOK VALUE PER SHARE ($)	30.57		35.04		41.45		45.65		50.27
Annual increase		14.6%		18.3%		10.1%		10.1%	
AVERAGE BV PER SHARE ($)	29.07		32.81		38.25		43.55		47.96
Annual increase		13%		17%		14%		10%	
AVG. MARKET / AVG. BOOK	0.62		0.76		0.96		0.92		1.01
Five year average = 0.88									
PRICE EARNINGS RATIO	5.2		4.7		4.8		6.7		7.7
Five year average = 5.9									
RETURN ON EQUITY	11.9%		16.0%		19.8%		13.8%		13.2%
Five year average = 14.9%									
RETURN ON ASSETS	6.8%		9.5%		11.3%		7.6%		7.3%
Five year average = 8.4%									
DEBT / EQUITY RATIO	0.71		0.66		0.83		0.79		0.84
Five year average = 0.78									
ASSET TURNOVER	39.2%		49.2%		54.1%		33.1%		33.1%
Five year average = 40.8%									

MELCOR
DEVELOPMENTS LTD.